FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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

SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended March 31, 1999

Commission File Number 0-17071

First Merchants Corporation

(Exact name of registrant as specified in its charter)

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

(765) 747-1500

(Registrant's telephone number, including area code)

Not Applicable

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days,

Yes X No

As of May 3, 1999, there were outstanding 12,004,252 common shares, without par value, of the registrant.

The exhibit index appears on page 2.

This report including the cover page contains a total of 20 pages.

FIRST MERCHANTS CORPORATION

FORM 10-Q

INDEX

FIRST MERCHANTS CORPORATION

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

	March 31, 1999	December 31, 1998
ASSETS:		
Cash and due from banks	$ 31,486	$ 33,908
Federal funds sold	3,525	37,315
Cash and cash equivalents	35,011	71,223
Interest-bearing deposits	280	855
Investment securities available for sale	338,422	308,507
Investment securities held to maturity	19,007	20,854
Mortgage loans held for sale		776
Loans	751,451	742,972
Less: Allowance for loan losses	(7,711)	(7,412)
Net loans	743,740	735,560
Premises and equipment	17,065	16,954
Federal Reserve and Federal Home Loan Bank stock	3,723	3,723
Interest receivable	8,928	9,173
Core deposit intangibles and goodwill	3,040	3,117
Others assets	7,616	6,430
Total assets	$1,176,832	$1,177,172
LIABILITIES:		
Deposits:		
Noninterest-bearing	$ 102,130	$ 123,297
Interest-bearing	778,303	803,547
Total deposits	880,433	926,844
Borrowings	154,751	111,400
Interest payable	3,583	3,614
Other liabilities	5,424	3,817
Total liabilities	1,044,191	1,045,675
STOCKHOLDERS' EQUITY:		
Preferred stock, no-par value:		
Authorized and unissued -- 500,000 shares		
Common stock, $.125 stated value:		
Authorized --- 50,000,000 shares		
Issued and outstanding -- 10,082,402 and 10,086,083 shares	1,260	1,261
Additional paid-in capital	24,812	24,969
Retained earnings	104,995	103,076
Accumulated other comprehensive income	1,574	2,191
Total stockholders' equity	132,641	131,497
Total liabilities and stockholders' equity	$1,176,832	$1,177,172

See notes to consolidated condensed financial statements.

FIRST MERCHANTS CORPORATION

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

	Three Months Ended March 31, 1999	1998
Interest Income:		
Loans receivable		
Taxable	$ 15,434	$ 15,406
Tax exempt	41	52
Investment securities:		
Taxable	3,273	2,343
Tax exempt	1,218	1,098
Federal funds sold	118	156
Deposits with financial institutions	3	3
Federal Reserve and Federal Home Loan Bank stock	71	64
Total interest income	20,158	19,122
Interest expense:		
Deposits	7,805	8,233
Borrowing	1,529	737
Total interest expense	9,334	8,970
Net Interest Income	10,824	10,152
Provision for loan losses	435	411
Net Interest Income After Provision for Loan Losses	10,389	9,741
Other Income:		
Net realized gains on sales of available-for-sale securities	10	46
Other income	3,064	2,636
Total other income	3,074	2,682
Total other expenses	7,499	6,591
Income before income tax	5,964	5,832
Income tax expense	2,030	2,008
Net Income	$ 3,934	$ 3,824
Per share:		
Net Income:		
Basic	$ .39	$ .38
Diluted	.39	.38
Dividends	.20	.19

See notes to consolidated condensed financial statements.

FIRST MERCHANTS CORPORATION

FORM 10-Q
CONSOLIDATED CONDENSED STATEMENT OF COMPREHENSIVE INCOME
(Dollar amounts in thousands)
(Unaudited)

	Three Months Ended March 31, 1999	Three Months Ended March 31, 1998
Net Income	$ 3,934	$ 3,824
Other comprehensive income, net of tax: Unrealized losses on securities available for sale:		
Unrealized holding losses arising during the period, net of income tax 408 and $54	(611)	(80)
Less: Reclassification adjustment for gains included in net income, net of income tax of $4 and $19	(6)	(27)
	(617)	(107)
Comprehensive income	$ 3,317	$ 3,717

FIRST MERCHANTS CORPORATION

FORM 10-Q
CONSOLIDATED CONDENSED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
(Dollar amounts in thousands)
(Unaudited)

	1999	1998
Balances, January 1	$131,497	$121,969
Net income	3,934	3,824
Cash dividends	(2,016)	(1,869)
Other comprehensive income, net of tax .	(617)	(107)
Stock issued under dividend reinvestment and stock purchase plan	182	145
Stock options exercised		102
Stock Redeemed	(339)	
Balances, March 31	$132,641	$124,064

See notes to consolidated condensed financial statements

FIRST MERCHANTS CORPORATION

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

	Three Months Ended March 31 1999	Three Months Ended March 31 1998
Cash Flows From Operating Activities:		
Net income	$ 3,934	$ 3,824
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for loan losses	435	411
Depreciation and amortization	572	465
Securities amortization, net	3	45
Securities losses (gains), net	(10)	(46)
Mortgage loans originated for sale	(3,376)	(2,452)
Proceeds from sales of mortgage loans	4,152	2,387
Change in interest receivable	245	779
Change in interest payable	(31)	40
Other adjustments	905	637
Net cash provided by operating activities	6,829	6,090
Cash Flows From Investing Activities:		
Net change in interest-bearing deposits	575	23
Purchases of		
Securities available for sale	(85,219)	(28,980)
Securities held to maturity		(90)
Proceeds from maturities of		
Securities available for sale	52,401	21,769
Securities held to maturity	1,778	5,717
Proceeds from sales of		
Securities available for sale	1,955	1,282
Net change in loans	(8,615)	1,285
Purchases of premises and equipment	(700)	(929)
Other investing activities	17	245
Net cash provided by investing activities	(37,808)	322

(continued)

FIRST MERCHANTS CORPORATION

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

	Three Months Ended March 31 1999	1998
Cash Flows From Financing Activities:		
Net change in		
Demand and savings deposits	$(21,167)	$ (16,935)
Certificates of deposit and other time deposits	(25,244)	8,548
Repurchase agreements and other borrowings	34,351	(1,775)
Federal Home Loan Bank advances	9,000	4,000
Repayment of Federal Home Loan Bank advances		(29)
Cash dividends	(2,016)	(1,869)
Stock issued under dividend reinvestment and stock purchase plan	182	145
Stock options exercised		102
Stock redeemed	(339)	
Net cash provided by financing activities	(5,233)	(7,813)
Net Change in Cash and Cash Equivalents	(36,212)	(1,401)
Cash and Cash Equivalents, January 1	71,223	42,177
Cash and Cash Equivalents, March 31	$ 35,011	$ 40,776

See notes to consolidated condensed financial statements.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

NOTE 1. GENERAL

The significant accounting policies followed by First Merchants Corporation ("Corporation") and its wholly owned subsidiaries for interim financial reporting are consistent with the accounting policies followed for annual financial reporting, except for the change in method of accounting or adoption of accounting pronouncement discussed more fully in Note 2. All adjustments which are of a normal recurring nature and are in the opinion of management necessary for a fair statement of the results for the periods reported have been included in the accompanying consolidated condensed financial statements.

NOTE 2. CHANGE IN METHODS OF ACCOUNTING OR ADOPTION OF ACCOUNTING PRONOUNCEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

NOTE 3. SUBSEQUENT EVENTS - ACQUISITIONS

On April 1, 1999, the Corporation issued 1,098,795 shares of its common stock in exchange for all of the outstanding shares of Jay Financial Corporation Portland, Indiana. At December 31, 1998, Jay Financial Corporation had total assets and shareholders' equity of $114,895,000 and $14,903,000, respectively. The transaction will be accounted for under the pooling -of -interests method of accounting. The financial information herein does not reflect the merger.

On April 21, 1999, the Corporation issued 810,642 shares of its common stock in exchange for all of the outstanding shares of Anderson Community Bank, Anderson, Indiana. At December 31, 1998, Anderson Community Bank had total assets and shareholders' equity of $77,984,000 and $7,740,000, respectively. The transaction will be accounted for under the pooling -of-interests method of accounting. The financial information herein does not reflect the merger.

The Proforma unaudited results of operations assuming the two mergers had occurred on January 1, 1998, are as follows:

	Three Months Ended March 31, 1999	Three Months Ended March 31, 1998
Net interest income	$ 12,865	$ 11,969
Net income	4,643	4,393
Basic net income per share	.39	.37
Diluted net income per share	.38	.36

NOTE 4. INVESTMENT SECURITIES

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale at March 31, 1999:				
U.S. Treasury	$ 11,836	$ 59		$ 11,895
Federal agencies	52,402	346	$ 65	52,683
State and municipal	91,540	2,278	45	93,773
Mortgage-backed securities	149,865	235	227	149,873
Other asset-backed securities	19,233	1		19,234
Corporate obligations	10,635	98	19	10,714
Marketable equity security	250			250
Total available for sale	335,761	3,017	356	338,422
Held to maturity at March 31, 1999:				
U.S. Treasury	250	1		251
Federal agencies	500			500
State and municipal	16,204	296		16,500
Mortgage-backed securities	711	2		713
Other asset-backed securities	1,342	2	49	1,295
Total held to maturity	19,007	301	49	19,259
Total investment securities	$ 354,768	$ 3,318	$ 405	$ 357,681

(Table dollar amounts in thousands)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale at December 31, 1998:				
U.S. Treasury	$ 20,269	$ 95		$ 20,364
Federal agencies	52,598	577	$ 19	53,156
State and municipal	86,537	2,620	4	89,153
Mortgage-backed securities	126,329	424	183	126,570
Other asset-backed securities	265	1	11	255
Corporate obligations	18,624	143	8	18,759
Marketable equity securities	250			250
Total available for sale	304,872	3,860	225	308,507
Held to maturity at December 31, 1998:				
U.S. Treasury	249	4		253
Federal agencies	500	1		501
State and municipal	17,480	348	1	17,827
Mortgage-backed securities	864	3		867
Other asset-backed securities	1,761	2	27	1,736
Total held to maturity	20,854	358	28	21,184
Total investment securities	$ 325,726	$ 4,218	$ 253	$ 329,691

FIRST MERCHANTS CORPORATION

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

NOTE 5. LOANS AND ALLOWANCE

	March 31, 1999	December 31, 1998
Loans:		
Commercial and industrial loans	$ 173,362	$ 169,685
Bankers' acceptances and loans to financial institutions	580	900
Agricultural production financing and other loans to farmers	15,817	16,661
Real estate loans:		
Construction	23,210	26,426
Commercial and farmland	100,183	95,172
Residential	302,363	302,680
Individuals' loans for household and other personal expenditures	131,630	128,253
Tax-exempt loans	2,788	2,115
Other loans	1,611	1,217
Unearned interest on loans	(93)	(137)
Total	$ 751,451	$ 742,972

	Nine Months Ended March 31 1999	1998
Allowance for loan losses:		
Balances, January 1	$ 7,412	$ 6,778
Provision for losses	435	411
Recoveries on loans	155	110
Loans charged off	(291)	(480)
Balances, March 31	$ 7,711	$ 6,819

NOTE 6. NET INCOME PER SHARE

	Three Months Ended March 31, 1999			1998		
	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	$3,934	10,079,953	$ .39	$3,824	10,005,041	$ .38
Effect of dilutive stock options		115,812			181,359	
Diluted net income per share:						
Net income available to common stockholders and assumed conversions	$3,934	10,195,765	$ .39	$3,824	10,186,400	$ .38

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

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

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

RESULTS OF OPERATIONS

Net income for the three months ended March 31, 1999, was $3,934,000, compared to $3,824,000 earned in the same period of 1998. Diluted net income per share was $.39 for the three months ended March 31, 1999, compared to $.38 for the three months ended March 31, 1998.

The increase in earnings was primarily due to growth in earning assets and non-interest income. Net interest income increased $672,000 or 6.6 percent over the fisrt three months of 1998 due to growth in earning assets of 12.8 percent. Noninterest income increased $392,000 or 14.6 percent over the first three months of 1998 due primarily to increased revenues from fiduciary activities and commission income.

Annualized returns on average assets and average shareholder's equity for quarter ended March 31, 1999 were 1.38 percent and 11.91 percent, respectively, compared with 1.51 percent and 12.43 percent for the same period of 1998.

CAPITAL

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

The Corporation's Tier I capital to average assets ratio was 11.9 percent at year-end 1998 and 11.2 percent at March 31, 1999. At March 31, 1999, the Corporation had a Tier I risk-based capital ratio of 16.6 percent, total risk-based capital ratio of 17.6 percent, and a leverage ratio of 11.6 percent. Regulatory capital guidelines require a Tier I risk-based capital ratio of 4.0 percent and a total risk-based capital ratio of 8.0 percent. Banks with Tier I risk-based capital ratios of 6.0 percent and total risk-based capital ratios of 10.0 percent are considered "well capitalized."

ASSET QUALITY/PROVISION FOR LOAN LOSSES

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

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

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

The following table summarizes the risk elements for the Corporation.

(Dollars in Thousands)	March 31, 1999	December 31, 1998	December 31, 1997
Non-accrual loans	$ 726	$ 735	$1,410
Loans contractually past due 90 days or more other than nonaccruing	3,342	2,275	1,972
Restructured loans	821	926	282
Total	$4,889	$3,936	$3,664

Impaired loans included in the table above, totaled $2,222,000 at December 31, 1998. An allowance for losses at December 31, 1998, was not deemed necessary for impaired loans totaling $6,882,000, but an allowance of $712,000 was recorded for impaired loans totaling $1,946,000. The average balance of impaired loans for 1998 was $8,318,000.

At March 31, 1999, the allowance for loan losses increased by $299,000, to $7,711,000, up slightly from year end 1998. As a percent of loans, the allowance was 1.02 percent, up from .99 percent at year end 1998.

The first quarter 1999 provision of $435,000 was up $24,000 from $411,000 for the same quarter in 1998. Net charge-offs amounted to $136,000 during the quarter.

The table below presents loan loss experience for the periods indicated and compares the Corporation's loss experience to that of its peer group, consisting of bank holding companies with assets between $1 billion and $3 billion.

	Three Months Ended March 31,	Year Ended December 31,		
	1998	1998	1997	1996
	(Dollars in Thousands)			
Allowance for loan losses:				
Balance at beginning of period	$7,412	$6,778	$6,622	$6,696
Chargeoffs	291	1,881	1,609	1,636
Recoveries.	155	531	468	309
Net chargeoffs	136	1,350	1,141	1,327
Provision for loan losses.	435	1,984	1,297	1,253
Balance at end of period	$7,711	$7,412	$6,778	$6,622
Ratio of net chargeoffs during the period to average loans outstanding during the period	.07 (1)	.18	.17%	.23%
Peer Group	N/A	.26	.29%	.26%

(1) First three months annualized

LIQUIDITY, INTEREST SENSITIVITY, AND DISCLOSURES ABOUT MARKET RISK

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

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

The Corporation's liquidity and interest sensitivity position at March 31, 1999, remained adequate to meet the Corporation's primary goal of achieving optimum interest margins while avoiding undue interest rate risk.

The Corporation had a cumulative negative gap of $75,235,000 in the six month horizon at March 31, 1999, or just over 17.5 percent of total assets. Net interest income at a financial institution with a negative gap tends to decrease when rates rise and generally increase as interest rates decline.

The GAP/Interest Rate Sensitive Report is a tool which displays repricing timing differences between interest sensitive assets and liabilities. The 0-180 day Sensitivity Gap Ratio depicts the institution is liability sensitive 82.5 percent.

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

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

	Rising		Falling	
Prime	300	Basis Points	(300)	Basis Points
Federal Funds	300		(300)	
90 Day T-Bill	310		(275)	
One Year T-Bill	290		(270)	
Three Year T-Note	290		(265)	
Five Year T-Note	290		(255)	
Ten Year T-Note	290		(245)	
Interest Checking	100		(57)	
MMIA Savings	150		(100)	
Money Market Index	309		(226)	
Regular Savings	100		(57)	

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

	Flat/Base	Rising	Falling
Net Interest Income (Dollars in Thousands)	$64,587	$63,494	$62,578
Change vs. Flat/Base Scenario		(1,093)	(2,009)
Percent Change		(1.69%)	(3.11%)

EARNING ASSETS

The following table presents the earning asset mix for the years ended 1998 and 1997 and at March 31, 1999.

Loans grew by more than $7.7 million from December 31, 1998, to March 31, 1999, while investment securities grew by more than $28.0 million during the same period.

EARNING ASSETS (Dollars in Millions)	March 31, 1999	December 31, 1998	December 31, 1997
Federal funds sold and interest-bearing deposits	$ 3.8	$ 38.2	$ 9.4
Investment securities available for sale	338.4	308.5	212.0
Investment securities held to maturity	19.0	20.9	35.3
Mortgage loans held for sale		0.8	0.5
Loans	751.5	743.0	703.3
Federal Reserve and Federal Home Loan Bank stock	3.7	3.7	3.4
Total	$ 1,116.4	$ 1,115.1	$ 963.9

DEPOSITS AND BORROWINGS

The following table presents the level of deposits and borrowed funds (Federal funds purchased, repurchase agreements with customers, U.S. Treasury demand notes and Federal Home Loan Bank advances) for the years ended 1998 and 1997 and at March 31, 1999.

DEPOSITS AND BORROWINGS (Dollars in Millions)	March 31, 1999	December 31, 1998	December 31, 1997
Deposits	$ 880.4	$ 926.8	$ 843.8
Securities sold under repurchase agreements	84.7	48.8	15.4
Federal funds purchased	14.2	17.1	4.1
U.S. Treasury demand notes	3.6	2.2	7.4
Federal Home Loan Bank advances	52.3	43.3	20.7

NET INTEREST INCOME

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

The table below presents the Corporation's asset yields, interest expense, and net interest income as a percent of average earning assets for the three months ended March 31, 1998 and 1999.

Net interest income (FTE) for the three months ended March 31, 1999 increased by $731,000, or 6.8 percent over the same period in 1998, due to an increase in earning assets of over $118 million. For the same period interest income and interest expense, as a percent of average earning assets, declined .50 and .28 percent respectively, due to a decline in interest rates and margin compression.

(Dollars in Thousands)	Interest Income (FTE) as a Percent of Average Earning Assets	Interest Expense as a Percent of Average Earning Assets	Net Interest Income (FTE) as a Percent of Average Earning Assets	Average Earning Assets	Annualized Net Interest Income on a Fully Fully Taxable Equivalent Basis
For the three months ended March 31,					
1999	7.73%	3.46%	4.27%	$1,077,898	$46,006
1998	8.23	3.74	4.49	959,958	43,084

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

OTHER INCOME

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

Other income in the first quarter of 1999 exceeded the same quarter in the prior year by $392,000, or 14.6 percent.

Two major areas account for most of the increase:

1. Revenues from fiduciary activities grew $171,000, or 18.7 percent, due to strong new business activity and markets.
2. Commission income increased $258,000, due primarily to the acquisition of First Merchants Insurance Services, Inc., on April 1, 1998.

OTHER EXPENSE

Total "other expenses" represent non-interest operating expenses of the Corporation. First quarter other expense in 1999 exceeded the same quarter of the prior year by $908,000, or 13.8 percent.

Two major areas account for most of the increase:

1. Salaries and benefit expense grew $650,000, or 18.9 percent, due to normal salary increases, staff additions, and the acquisition of First Merchants Insurance Services, Inc., on April 1, 1998.
2. Net occupancy and equipment expense grew by $211,000, or 20.1 percent, due to an increasing branch network.

INCOME TAXES

Income tax expense, for the three months ended March 31, 1999, increased by $22,000 over the same period in 1998, due to a $131,000 increase in pre-tax net income, mitigated somewhat by a $109,000 increase in tax-exempt income.

YEAR 2000

The Corporation has conducted a comprehensive review of its computer systems to identify the systems that could be affected by the Year 2000 Issue and has developed an implementation plan to resolve the issue. The Year 2000 Issue is the result of computer programs being written using two digits rather than four to define the applicable year. Any of the Corporation's programs that have time-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in a sytem failure or miscalculations. The Corporation is utilizing both internal and external resources to identify, correct and test the systems for the Year 2000 compliance. The Corporation began the testing phase during the third quarter of 1998. Core application testing was completed as of March 31, 1999. However, due to the acquisitions of Jay Financial Corporation and Anderson Community Bank on April 1 and April 22, 1999, respectively, the Corporation expects to have these two subsidiaries Year 2000 compliant by June 30, 1999.

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

The Board of Directors reviews, on a quarterly basis, the progress in addressing Year 2000 issues. The Corporation believes that its costs related to upgrading systems and software for Year 2000 compliance will not exceed $1,025,000. As of March 31, 1999, the Corporation has spent approximately $750,000 in connection with Year 2000 compliance. Of the $750,000, approximately $650,000 has been capitalized as the Corporation replaced and upgraded non-compliant systems. Although the Corporation believes it is taking the necessary steps to address the Year 2000 compliance issue, no assurances can be given that some problems will not occur or that the Corporation will not incur significant additional expenses in future periods.

OTHER

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

FIRST MERCHANTS CORPORATION

FORM 10-Q

PART II. OTHER INFORMATION

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

NONE

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

Exhibit No.:	Description of Exhibit:	Form 10-Q Page Number
2	Plans of acquisition/reorganization are incorporated by reference to forms S-4 filed on December 29, 1998 and January 7, 1999.	
27	Financial Data Schedule, Period Ending March 31, 1999	21

(b) Reports on Form 8-K:

None

FIRST MERCHANTS CORPORATION

FORM 10-Q

SIGNATURES

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

FIRST MERCHANTS CORPORATION
(Registrant)

Date May 14, 1999 by /s/ Michael L. Cox

Michael L. Cox
Executive Vice President
and Director

Date May 14, 1999 by /s/ James L. Thrash

James L. Thrash
Chief Financial & Principal
Accounting Officer

9
1,000

3-MOS
DEC-31-1999
JAN-01-1999
MAR-31-1999
31,486
280
3,525
0
338,422
19,007
19,259
741,451
7,711
1,176,832
880,433
86,549
9,007
68,202
0
0
1,260
131,381
1,176,832
15,475
4,491
192
20,158
7,805
9,334
10,824
435
10
7,499
5,964
3,934
0
0
3,934
.39
.39
4.27
726
3,342
0
0
7,412
291
155
7,711
7,711
0
0