UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 or 15 (d) of THE

SECURITIES EXCHANGE ACT OF 1934

For Quarterly Period Ended March 31, 2002

Commission File Number 0-17071

First Merchants Corporation

(Exact name of registrant as specified in its charter)

Indiana	35-1544218
(State or other jurisdiction of incorporation 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 April 30, 2002 there were 15,569,585 outstanding common shares, without par value, of the registrant.

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PART I. FINANCIAL INFORMATION
Item 1. FINANCIAL STATEMENTS
CONSOLIDATED CONDENSED BALANCE SHEETS
(Dollars in thousands, except per share amounts)

	March 31, 2002 (Unaudited)	December 31, 2001
ASSETS:		
Cash and due from banks	$ 44,059	$ 68,743
Federal funds sold	21,194	34,285
Cash and cash equivalents	65,253	103,028
Interest-bearing deposits	3,818	3,871
Investment securities available for sale	213,228	231,668
Investment securities held to maturity	7,133	8,654
Mortgage loans held for sale	163	307
Loans, net of allowance for loan losses of $15,128 and $15,141	1,348,923	1,344,445
Premises and equipment	28,426	27,684
Federal Reserve and Federal Home Loan Bank Stock	8,350	8,350
Interest receivable	11,356	12,024
Goodwill	27,681	26,081
Core deposit intangibles	5,870	6,096
Cash surrender value of life insurance	6,557	6,470
Other assets	9,154	8,357
Total assets	$ 1,735,912	$ 1,787,035
LIABILITIES:		
Deposits:		
Noninterest-bearing	$ 171,825	$ 186,987
Interest-bearing	1,201,861	1,234,264
Total deposits	1,373,686	1,421,251
Borrowings	164,954	174,404
Interest payable	5,621	5,488
Other liabilities	8,567	6,764
Total liabilities	1,552,828	1,607,907
STOCKHOLDERS' EQUITY:		
Perferred stock, no-par value:		
Authorized and unissued - 500,000 shares		
Common Stock, $.125 stated value:		
Authorized --- 50,000,000 shares		
Issued and outstanding - 12,788,037 and 12,670,307 shares	1,599	1,584
Additional paid-in capital	53,338	50,642
Retained earnings	126,842	124,304
Accumulated other comprehensive income	1,305	2,598
Total stockholders' equity	183,084	179,128
Total liabilities and stockholders' equity	$ 1,735,912	$ 1,787,035

See notes to consolidated condensed financial statements.

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CONSOLIDATED CONDENSED STATEMENTS OF INCOME

(Dollars in thousands, except per share amounts)

(Unaudited)

	Three Months Ended March 31, 2002	2001
Interest Income:		
Loans receivable		
Taxable	$ 24,266	$ 25,190
Tax exempt	108	92
Investment securities:		
Taxable	1,903	3,539
Tax exempt	987	1,027
Federal funds sold	181	89
Deposits with financial institutions	22	10
Federal Reserve and Federal Home Loan Bank stock	124	141
Total interest income	27,591	30,088
Interest expense:		
Deposits	8,228	12,701
Borrowings	1,985	2,698
Total interest expense	10,213	15,399
Net Interest Income	17,378	14,689
Provision for loan losses	1,192	653
Net Interest Income After Provision for Loan Losses	16,186	14,036
Other Income:		
Net realized gains on sales of available-for-sale securities.	118	
Other income	5,046	4,394
Total other income	5,164	4,394
Total other expenses	13,000	10,473
Income before income tax	8,350	7,957
Income tax expense	2,871	2,851
Net Income	$ 5,479	$ 5,106
Per share:		
Diluted Cash Earnings(1)	$ .43	$ .44
Basic	.43	.42
Diluted	.43	.42
Dividends	.23	.23

(1) Net income excluding core deposit and other intangible assets amortization. Also, excludes goodwill amortization for the three months ended March 31, 2001.

See notes to consolidated condensed financial statements.

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CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in thousands)
(Unaudited)

	Three Months Ended March 31, 2002	Three Months Ended March 31, 2001
Net Income	$ 5,479	$ 5,106
Other comprehensive income, net of tax:		
Unrealized (losses) gains on securities available for sale:		
Unrealized holding (losses) gains arising during the period, net of income tax benefit (expense) of $815 and $(1,187).............	(1,223)	1,781
Less: Reclassification adjustment for gains included in net income, net of income tax expense of $(46) and $0.........	72	
	(1,295)	1,781
Comprehensive income	$ 4,184	$ 6,887

See notes to consolidated condensed financial statements

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CONSOLIDATED CONDENSED STATEMENTS OF STOCKHOLDERS' EQUITY

(Dollars in thousands)

(Unaudited)

	2002	2001
Balances, January 1	$ 179,128	$ 156,063
Net income	5,479	5,106
Cash dividends	(2,939)	(2,665)
Other comprehensive income (loss), net of tax	(1,295)	1,781
Stock issued under dividend reinvestment and stock purchase plan	234	210
Stock options exercised	87	20
Stock Redeemed	(54)	(1,415)
Issuance of stock in acquisition	2,444	
Balances, March 31	$ 183,084	$ 159,100

See notes to consolidated condensed financial statements

FIRST MERCHANTS CORPORATION

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CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

	Three Months Ended March 31, 2002	Three Months Ended March 31, 2001
Cash Flows From Operating Activities:		
Net income	$ 5,479	$ 5,106
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for loan losses	1,192	653
Depreciation and amortization	775	1,207
Securities amortization, net	64	(79)
Securities gains, net	(113)	
Gain on sale of premises and equipment	(3)	
Mortgage loans originated for sale	(4,988)	(5,206)
Proceeds from sales of mortgage loans	5,132	4,746
Change in interest receivable	668	1,183
Change in interest payable	133	233
Other adjustments	(78)	(712)
Net cash provided by operating activities	$ 8,261	$ 7,131
Cash Flows From Investing Activities:		
Net change in interest-bearing deposits	53	(749)
Purchases of		
Securities available for sale	(21,630)	(4,169)
Proceeds from maturities of		
Securities available for sale	34,110	33,279
Securities held to maturity	1,527	2,244
Proceeds from sales of		
Securities available for sale	5,547	
Securities held to maturity		
Net change in loans	(5,670)	(11,232)
Net cash received in acquisition	1,228	
Purchases of premises and equipment	(1,522)	(324)
Proceeds from sale of fixed assets	8	
Net cash provided by investing activities	13,651	19,049

(continued)

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CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

	Three Months Ended March 31	
	2002	2001
Cash Flows From Financing Activities:		
Net change in		
Demand and savings deposits	$ (26,069)	$ (26,929)
Certificates of deposit and other time deposits	(21,496)	(30,553)
Borrowings	(9,450)	(8,717)
Cash dividends	(2,939)	(2,665)
Stock issued under dividend reinvestment and stock purchase plan	234	210
Stock options exercised	87	20
Stock repurchased	(54)	(1,415)
Net cash used by financing activities	(59,687)	(70,049)
Net Change in Cash and Cash Equivalents	(37,775)	(43,869)
Cash and Cash Equivalents, January 1	103,028	67,463
Cash and Cash Equivalents, March 31	$ 65,253	$ 23,594

See notes to consolidated condensed financial statements.

NOTE 1. General

The significant accounting policies followed by First Merchants Corporation ("Corporation") and its wholly owned subsidiaries for interim financial reporting are consistent with the accounting policies followed for annual financial reporting, except for the change in method of accounting or adoption of accounting pronouncements discussed more fully in 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.

The consolidated condensed balance sheet of the Corporation as of December 31, 2001 has been derived from the audited consolidated balance sheet of the Corporation as of that date. Certain information and note disclosures normally included in the Corporation's annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. These consolidated condensed financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Corporation's Form 10-K annual report filed with the Securities and Exchange Commission.

The results of operations for the period are not necessarily indicative of the results to be expected for the year.

NOTE 2. Accounting Matters

ACCOUNTING FOR A BUSINESS COMBINATION

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

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

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

ACCOUNTING FOR GOODWILL

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

Impairment testing is a two step process, as outlined within the statement. If the fair value of goodwill is less than its carrying value, then the goodwill is deemed impaired and a loss recognized. Any impairment loss recognized as a result of completing the transitional impairment test should be treated as a change in accounting principle and recognized in the first interim period financial statements.

The Corporation adopted these new accounting rules on January 1, 2002. As a result, the Corporation will not amortize the goodwill it has recorded, but will make an annual assessment of any impairment in goodwill and, if necessary, recognize an impairment loss at that time. The Corporation had goodwill of $27,681,000 at March 31, 2002 and identified no impairment loss.

NOTE 3. Business Combinations

On April 1, 2002, the Corporation completed the acquisition of Lafayette Bancorporation and its wholly owned subsidiary, Lafayette Bank and Trust Company, Lafayette, Indiana (collectively "Lafayette"). The acquisition will be accounted for under the purchase method of accounting. The total purchase price paid was approximately $115,978,000. Under the terms of the agreement, the Corporation will issue approximately 2,773,059 shares of its common stock, at a value of $23.48 (as determined by the average of the closing price of the stock for the two days prior, the day of and the two days after the acquisition was announced) and approximately $50,867,000 cash in exchange for all the common stock of Lafayette. The Corporation anticipates amortizing core deposit intangibles over ten years utilizing a 150% declining balance method. At December 31, 2001, Lafayette had total assets and shareholders' equity of $762,318,000 and $59,120,000. The results of operations of Lafayette will be included in the Corporation's results beginning April 1, 2002.

Effective January 1, 2002, the Corporation acquired Delaware County Abstract Company, Inc. ("DCA") and Beebe & Smith Title Insurance Company, Inc. ("B & S"), which were merged into Indiana Title Insurance Company, a wholly-owned subsidiary of the Corporation. The title insurance operations were subsequently contributed to Indiana Title Insurance Company, LLC in which the Corporation has a 52.12% ownership interest. This acquisition was deemed to be an immaterial acquisition.

(Table dollars in thousands)

NOTE 4. Investment Securities

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale at March 31, 2002				
U.S. Treasury	$ 124			$ 124
Federal agencies..................	33,633	$ 473	$ 138	33,968
State and municipal	81,972	1,441	538	82,875
Mortgage-backed securities	80,541	881	54	81,368
Other asset-backed securities.....	5,881	65	9	5,937
Corporate obligations.............	3,496	76		3,572
Marketable equity securities......	5,507		123	5,384
Total available for sale	211,154	2,936	862	213,228
Held to maturity at March 31, 2002				
State and municipal...............	6,931	186	58	7,059
Mortgage-backed securities........	202			202
Total held to maturity	7,133	186	58	7,261
Total investment securities ..	$218,287	$ 3,122	$ 920	$220,489

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(Table dollars in thousands)
(Unaudited)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale at December 31, 2001				
U.S. Treasury	$ 124			$ 124
Federal agencies	30,808	$ 767	$ 2	31,573
State and municipal	74,776	1,644	215	76,205
Mortgage-backed securities	100,811	1,710	1	102,520
Other asset-backed securities	10,116	167		10,283
Corporate obligations	3,498	116		3,614
Marketable equity securities	7,472		123	7,349
Total available for sale	227,605	4,404	341	231,668
Held to maturity at December 31, 2001				
State and municipal	8,426	166	58	8,534
Mortgage-backed securities	228			228
Total held to maturity	8,654	166	58	8,762
Total investment securities	$236,259	$ 4,570	$ 399	$240,430

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(Table dollars in thousands)
(Unaudited)

NOTE 5. Loans and Allowance

	March 31, 2002	December 31, 2001
Loans:		
Commercial and industrial loans	$ 307,450	$ 301,962
Agricultural production financing and other loans to farmers	29,465	29,645
Real estate loans:		
Construction	51,096	58,316
Commercial and farmland	255,232	230,233
Residential	526,955	544,028
Individuals' loans for household and other personal expenditures	173,300	179,325
Tax-exempt loans	6,983	7,277
Other loans	13,570	8,800
	1,364,051	1,359,586
Allowance for loan losses	(15,128)	(15,141)
Total Loans	$ 1,348,923	$ 1,344,445

	Three Months Ended March 31	
	2002	2001
Allowance for loan losses:		
Balances, January 1	$ 15,141	$ 12,454
Provision for losses	1,192	653
Recoveries on loans	381	125
Loans charged off	(1,586)	(505)
Balances, March 31	$ 15,128	$ 12,727

NOTE 6. Net Income Per Share

	Three Months Ended March 31, 2002			2001		
	Income	Weighted-Average Shares	Per Share Amount	Income	Weighted-Average Shares	Per Share Amount
Basic net income per share:						
Net income available to common stockholders	$ 5,479	12,778,366	$ .43	$ 5,106	12,178,006	$ .42
Effect of dilutive stock options		109,132			84,044	
Diluted net income per share:						
Net income available to common stockholders and assumed conversions	5,479	12,887,498	$ .43	5,106	12,262,050	$ .42

Options to purchase 76,909 and 112,413 shares at March 31, 2002 and 2001 were not included in the earnings per share calculation because the exercise price exceeded the average market price.

Note 7. Cumulative Trust Preferred Securities

On April 12, 2002, the Corporation and First Merchants Capital Trust I (the "Trust") entered into an Underwriting Agreement with Stifel, Nicolaus & Company, Incorporated and RBC Dain Rauscher Inc. for themselves and as co-representatives for several other underwriters, (the "Underwriting Agreement"). On April 17, 2002 and pursuant to the Underwriting Agreement, the Trust issued 1,850,000 8.75% Cumulative Trust Preferred Securities (liquidation amount $25 per Preferred Security) (the "Preferred Securities") with an aggregate liquidation value of $46,250,000. On April 23, 2002 and pursuant to the Underwriting Agreement, the Trust issued an additional 277,500 Preferred Securities with an aggregate liquidation value of $6,937,500 to cover over-allotments. The proceeds from the sale of the Preferred Securities were invested by the Trust in the Corporation's 8.75% Junior Subordinated Debentures due June 30, 2032 (the "Debentures"). The proceeds from the issuance of the Debentures were used by the Corporation to fund a portion of the cash consideration payable to the shareholders of Lafayette Bancorporation in connection with the acquisition referenced in Note 3. The Preferred Securities will be recorded as borrowings in the Corporation's consolidated balance sheet.

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

Forward-Looking Statements

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

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

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

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

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

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

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

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

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

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

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

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

Results of Operations

Net income for the three months ended March 31, 2002, was $5,479,000, compared to $5,106,000 earned in the same period of 2001. Diluted earnings per share were $.43 compared to the $.42 reported for the first quarter 2001.

Cash basis earnings per share were $.43 down $.01 from $.44 in 2001.

Annualized returns on average assets and average shareholder's equity for quarter ended March 31, 2002 were 1.25 percent and 12.14 percent, respectively, compared with 1.28 percent and 13.03 percent for the same period of 2001.

Capital

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

The Corporation's Tier I capital to average assets ratio was 8.7 percent at year-end 2001 and 8.6 percent at March 31, 2002. At March 31, 2002, the Corporation had a Tier I risk-based capital ratio of 11.4 percent and total risk-based capital ratio of 12.5 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

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

(Dollars in Thousands)	March 31, 2002	December 31, 2001
Non-accrual loans	$ 8,043	$ 6,327
Loans contractually past due 90 days Or more other than nonaccruing	4,292	4,828
Restructured loans	1,900	3,511
Total	$14,235	$14,666

At March 31, 2002, non-performing loans totaled $14,235,000, a decrease of $431,000 from December 31, 2001.

At March 31, 2002, impaired loans totaled $21,477,000. In addition, an allowance for losses was not deemed necessary for impaired loans totaling $11,538,000, but an allowance of $2,855,000 was recorded for the remaining balance of impaired loans of $9,939,000 and is included in the Corporation's allowance for loan losses. The average balance of impaired loans for the first quarter ended March 31, 2002 was $21,172,000.

At December 31, 2001, impaired loans totaled $21,161,000. In addition, an allowance for losses was not deemed necessary for impaired loans totaling $10,780,000, but an allowance of $3,251,000 was recorded for the remaining balance of impaired loans of $10,381,000 and is included in the Corporation's allowance for loan losses. The average balance of impaired loans for 2001 was $22,327,000.

At March 31, 2002, the allowance for loan losses decreased by $13,000, to $15,128,000, down slightly from year end 2001. As a percent of loans, the allowance was 1.11 percent, up from 1.07 percent at year end 2001.

The first quarter 2002 provision of $1,192,000 was up $539,000 from $653,000 for the same quarter in 2001. Net charge offs amounted to $1,205,000 during the quarter, an increase of $825,000 from $380,000 for the same quarter in 2001. The increase in net charge offs was primarily due to two commercial loans charged off during the first quarter of 2002, totaling approximately $700,000, that had been reserved for and included in the Corporation's allowance for loan losses at December 31, 2001. The increased provision has helped improve the allowance to total loans by 4 basis points over the first quarter of 2001, increasing the total to 1.11% at March 31, 2002.

	Three Months Ended March 31,	
	2002	2001
	(Dollars in Thousands)	
Balance at beginning of period	$15,141	$12,454
Chargeoffs	1,586	518
Recoveries	381	138
Net chargeoffs	1,205	380
Provision for loan losses	1,192	653
Balance at end of period	$15,128	$12,727
Ratio of net chargeoffs during the period to average loans outstanding during the period (1)	.35	.03

(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 review how changes in interest rates may affect earnings. Decisions regarding investment and the pricing of loan and deposit products are made after analysis of reports designed to measure liquidity, rate sensitivity, the Corporation's exposure to changes in net interest income given various rate scenarios and the economic and competitive environments.

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

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

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

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

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

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

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

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

	BASE	RISING	FALLING
Net Interest Income (dollars in thousands)	$ 71,938	$ 77,052	$ 69,054
Variance from base		$ 5,114	$ (2,884)
Percent of change from base		7.11%	(4.01)%

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

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

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

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

Earning Assets

The following table presents the earning asset mix as of March 31, 2002, and December 31, 2001.

Loans grew by over $4.3 million from December 31, 2001, to March 31, 2002, while investment securities declined by $20.1 million during the same period. Commercial and industrial and other loans increased by more than $10 million, while individuals' loans for household and personal expenditures declined by nearly $6 million.

EARNING ASSETS (Dollars in Millions)	March 31, 2002	December 31, 2001
Federal funds sold and interest-bearing deposits	$ 25.0	$ 38.2
Securities available for sale	213.2	231.7
Securities held to maturity	7.1	8.7
Loans	1,364.2	1,359.9
Federal Reserve and Federal Home Loan Bank stock	8.4	8.4
Total	$ 1,617.9	$ 1,646.9

Deposits and Borrowings

The following table presents the level of deposits and borrowed funds (Federal funds purchased, repurchase agreements, U.S. Treasury demand notes, Federal Home Loan Bank advances and other borrowed funds)at December 31, 2001 and March 31, 2002.

(Dollars in Millions)	March 31, 2002	December 31, 2001
Deposits	$ 1,373.7	$ 1,421.3
Securities sold under repurchase agreements......	43.1	45.6
Other short-term borrowings	4.5	16.8
Federal Home Loan Bank advances	108.9	103.5
Other borrowed funds	8.5	8.5

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

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, 2002 and 2001.

Annualized net interest income (FTE) for the three months ended March 31, 2002 increased by $11,697,000, or 19.1 percent over the same period in 2001, due to an increase in average earning assets of over $144 million. For the same period interest income and interest expense, as a percent of average earning assets, decreased 134 basis points, 163 basis points respectively.

(Dollars in Thousands)	Interest Income (FTE) as a Percent of Average Earning Assets	Interest Expense as a Percent of Average Earning Assets	Net Interest Income (FTE) as a Percent of Average Earning Assets	Average Earning Assets	Annualized Net Interest Income On a Fully Taxable Equivalent Basis
For the three months Ended March 31,					
2002	6.89%	2.50%	4.39%	$1,635,783	$72,870
2001	8.23%	4.13%	4.10%	$1,491,338	$61,173

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 2002 exceeded the same quarter in the prior year by $770,000, or 17.5 percent.

Three major areas account for most of the increase:

1. Service charges on deposit accounts increased $191,000 or 15.1 percent due to increased number of accounts and price adjustments.

2. Net realized gains on sales of available-for-sale securities totaled $118,000 in the first quarter of 2002. No sales occurred during the same quarter in the prior year.

3. Gains on sale of mortgage loans included in other income increased by $107,000, or 60.1 percent, due to increased mortgage volume. In addition, continued low mortgage loan interest rates caused an increase in refinancing volume during January and February of the current quarter, which facilitated an increase in loan sales activity.

Other Expenses

Total other expenses represent non-interest operating expenses of the Corporation. First quarter other expense in 2002 exceeded the same quarter of the prior year by $2,527,000, or 24.1 percent.

Three major areas account for most of the increase:

1. Salaries and benefit expense grew $1,409,000 or 24.0 percent, due to normal salary increases, staff additions and additional salary cost related to the acquisition of Frances Slocum Bank and Trust Company.

2. Data processing fees increased by $283,000, or 53.8 percent, primarily due to increases in processing expenses related to greater usage of debit/ATM cards by customers and increases in loans originated and processed during the quarter.

3. Telephone expenses increased by $322,000 or 121.5%, primarily due to additional telephone costs related to the acquisition of Frances Slocum Bank and Trust Company and increased service contract charges related to greater usage of telephone lines.

Income Taxes

Income tax expense, for the three months ended March 31, 2002, increased by $20,000 over the same period in 2001. The effective tax rate was 34.4 and 35.8 percent for the 2002 and 2001 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 of Financial Condition and Results of Operations, under the heading Liquidity, Interest Sensitivity, and Disclosures About Market Risk.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 2. Changes in Securities and Use of Proceeds

a. None

b. None

c. On January 1, 2002, the Corporation issued a total of 103,732 unregistered shares of its common stock pursuant to Agreements of Merger dated December 28, 2001, between the Corporation and DCA and the Corporation and B & S, as previously discussed in Note 3. The Corporation issued the unregistered shares to the sole shareholder of DCA and sole shareholder of B & S, at a value of $23.50 per share, in exchange for all the common stock of both DCA and B & S. The issuance by the Corporation of its shares of common stock were not registered under the Securities Act of 1933, as amended ("Securities Act"). The shares were issued pursuant to the exemption contemplated in Section 4(2) of the Securities Act, for transactions not involving a public offering.

d. None

Item 3. Defaults Upon Senior Securities

None

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

At the March 18th, 2002, Special Meeting of Shareholders of the Corporation, the following matter was submitted to a vote of the shareholders.

Approval of the Agreement of Reorganization and Merger between the Corporation and Lafayette Bancorporation.

	Vote Count
Shares For............	9,305,260.9553
Shares Against.........	94,614.3984
Shares Abstain.........	32,420.0291

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

a. Exhibits

None

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 15, 2002

by /s/ Michael L. Cox
Michael L. Cox
President and Chief Executive Officer

Date May 15, 2002

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