FORM 10-Q

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

[x] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2004

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from _______ to _______

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 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 [ ]

Indicate by checkmark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes [x] No [ ]

As of May 6, 2004, there were 18,537,346 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, 2004 (Unaudited)	December 31, 2003
ASSETS:		
Cash and due from banks	$ 60,366	$ 77,112
Federal funds sold	0	32,415
Cash and cash equivalents	60,366	109,527
Interest-bearing deposits	10,674	8,141
Investment securities available for sale	370,469	348,860
Investment securities held to maturity	6,505	7,937
Mortgage loans held for sale	3,883	3,043
Loans, net of allowance for loan losses of $26,459 and $25,493.	2,293,644	2,328,010
Premises and equipment	38,972	39,639
Federal Reserve and Federal Home Loan Bank Stock	21,956	15,502
Interest receivable	15,061	16,840
Goodwill	118,715	118,679
Core deposit intangibles	23,152	24,044
Cash surrender value of life insurance	40,843	37,927
Other assets	20,901	18,663
Total assets	$ 3,025,141	$ 3,076,812
LIABILITIES:		
Deposits:		
Noninterest-bearing	$ 303,694	$ 338,201
Interest-bearing	2,009,726	2,023,900
Total deposits	2,313,420	2,362,101
Borrowings	372,356	383,170
Interest payable	4,542	4,680
Other liabilities	25,676	22,896
Total liabilities	2,715,994	2,772,847
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 - 18,532,769 and 18,512,834 shares	2,317	2,314
Additional paid-in capital	150,679	150,310
Retained earnings	151,771	149,096
Accumulated other comprehensive income	4,380	2,245
Total stockholders' equity	309,147	303,965
Total liabilities and stockholders' equity	$ 3,025,141	$ 3,076,812

See notes to consolidated condensed financial statements.

FIRST MERCHANTS CORPORATION

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CONSOLIDATED CONDENSED STATEMENTS OF INCOME
(Dollars in thousands, except per share amounts)
(Unaudited)

	Three Months Ended March 31, 2004	Three Months Ended March 31, 2003
Interest Income:		
Loans receivable		
Taxable	$ 34,227	$ 35,173
Tax exempt	163	165
Investment securities		
Taxable	1,949	1,679
Tax exempt	1,430	1,631
Federal funds sold	18	113
Deposits with financial institutions	109	22
Federal Reserve and Federal Home Loan Bank stock	328	198
Total interest income	38,224	38,981
Interest expense:		
Deposits	8,190	8,884
Borrowings	4,402	4,087
Total interest expense	12,592	12,971
Net Interest Income	25,632	26,010
Provision for loan losses	1,372	4,601
Net Interest Income After Provision for Loan Losses	24,260	21,409
Other Income:		
Net realized gains on sales of available-for-sale securities.	37	371
Other income	8,179	7,915
Total other income	8,216	8,286
Total other expenses	22,564	21,441
Income before income tax	9,912	8,254
Income tax expense	2,977	2,596
Net Income	$ 6,935	$ 5,658
Per share:(1)		
Basic	.37	.32
Diluted	.37	.32
Dividends	.23	.22

(1) Prior period per share amounts have been restated for the 5% stock dividend paid in September 2003.

See notes to consolidated condensed financial statements.

FIRST MERCHANTS CORPORATION

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

	Three Months Ended March 31	
	2004	2003
Net Income	$ 6,735	$ 5,658
Other comprehensive income (loss), net of tax:		
Unrealized gains (losses) on securities available for sale:		
Unrealized holding gains (losses) arising during the period, net of income tax (expense) benefit of $(1,438), and $117	2,157	(175)
Less: Reclassification adjustment for gains included in net income, net of income tax expense of $15 and $148	22	223
	2,135	(398)
Comprehensive income	$ 8,870	$ 5,260

See notes to consolidated condensed financial statements

FIRST MERCHANTS CORPORATION

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CONSOLIDATED CONDENSED STATEMENTS OF STOCKHOLDERS' EQUITY
(Dollars in thousands)
(Unaudited)

	2004	2003
Balances, January 1	$ 303,965	$ 261,129
Net income	6,935	5,658
Cash dividends	(4,260)	(4,024)
Other comprehensive income (loss), net of tax	2,135	(398)
Stock issued under dividend reinvestment and stock purchase plan	342	279
Stock options exercised	95	25
Stock Redeemed	(65)	
Issuance of stock in acquisitions		26,839
Cash paid in lieu of fractional shares		116
Balances, March 31	$ 309,147	$ 289,624

See notes to consolidated condensed financial statements

FIRST MERCHANTS CORPORATION

FORM 10-Q
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

	Three Months Ended March 31,	
	2004	2003
Cash Flows From Operating Activities:		
Net income	$ 6,935	$ 5,658
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for loan losses	1,372	4,601
Depreciation and amortization	1,288	1,084
Mortgage loans originated for sale	(25,054)	(58,705)
Proceeds from sales of mortgage loans	24,214	66,692
Change in interest receivable	1,779	1,419
Change in interest payable	(138)	(681)
Other adjustments	(141)	5,895
Net cash provided by operating activities	10,255	25,963
Cash Flows From Investing Activities:		
Net change in interest-bearing deposits	(2,533)	(1,602)
Purchases of		
Securities available for sale	(41,837)	(65,037)
Proceeds from maturities of		
Securities available for sale	19,314	56,845
Securities held to maturity		425
Proceeds from sales of		
Securities available for sale	4,728	25,779
Purchase of Federal Reserve and		
Federal Home Loan Bank Stock	(6,454)	
Net change in loans	32,994	14,616
Other adjustments	(624)	(69)
Net cash paid in acquisition		(7,793)
Net cash provided by investing activities	5,588	23,164
Cash Flows From Financing Activities:		
Net change in		
Demand and savings deposits	(37,002)	(20,515)
Certificates of deposit and other time deposits	(11,680)	(1,039)
Borrowings	(12,434)	(6,294)
Cash dividends	(4,260)	(4,024)
Stock issued under dividend reinvestment and stock purchase plan	342	280
Stock options exercised	95	25
Stock redeemed	(65)	
Cash paid in lieu of fractional shares		116
Net cash used by financing activities	(65,004)	(31,451)
Net Change in Cash and Cash Equivalents	(49,161)	17,676
Cash and Cash Equivalents, January 1	109,527	119,038
Cash and Cash Equivalents, March 31	$ 60,366	$ 136,714

See notes to consolidated condensed financial statements.

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

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. 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, 2003 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 three month period ended March 31, 2004 are not necessarily indicative of the results to be expected for the year.

Stock options are granted for a fixed number of shares to employees. 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. APB No. 25 requires compensation expense for stock options to be recognized only if the market price of the underlying stock exceeds the exercise price on the date of the grant. For all grants, no stock-based employee compensation cost is reflected in net income, as options granted under those plans had an exercise price equal to the market value of the underlying common stock on the grant date.

The following table illustrates the effect on net income and earnings per share if the Corporation has applied the fair value provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation.

	Three Months Ended March 31, 2004	Three Months Ended March 31, 2003
Net income, as reported	$ 6,935	$ 5,658
Add: Total stock-based employee compensation cost included in reported net income, net of income taxes		6
Less: Total stock-based employee compensation cost determined under the fair value based method, net of income taxes	(230)	(246)
Pro forma net income	$ 6,705	$ 5,418
Earnings per share:		
Basic - as reported	$ .37	$ .32
Basic - pro forma	.36	.31
Diluted - as reported	.37	.32
Diluted - pro forma	.36	.31

(Table dollars in thousands)

NOTE 1. General (continued)

The Corporation makes its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, available on its website at www.firstmerchants.com without charge, as soon as reasonably practicable after such reports are electronically filed with, or furnished to, the Securities and Exchange Commission. Additionally, upon request the Corporation will also provide without charge, a copy of its Form 10-Q to any shareholder by mail. Requests should be sent to Mr. Brian Edwards, Shareholder Relations Officer, First Merchants Corporation, P.O. Box 792, Muncie, IN 47308-0792.

NOTE 2. Investment Securities

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale at March 31, 2004				
U.S. Treasury	$ 1,498	$		$ 1,498
Federal agencies..................	34,378	672	$ (3)	35,047
State and municipal	114,302	8,271	(40)	122,533
Mortgage-backed securities	187,392	1,489	(772)	188,109
Other asset-backed securities.....	643			643
Corporate obligations.............	500	10		510
Marketable equity securities......	22,124	5		22,129
Total available for sale	360,837	10,447	(815)	370,469
Held to maturity at March 31, 2004				
State and municipal...............	6,436	418		6,854
Mortgage-backed securities........	69			69
Total held to maturity	6,505	418		6,923
Total investment securities ..	$367,342	$ 10,865	$ (815)	$377,392

(Table dollars in thousands)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale at December 31, 2003				
U.S. Treasury	$ 1,498			$ 1,498
Federal agencies	38,290	$ 523	$ (52)	38,761
State and municipal	118,794	6,932	(86)	125,640
Mortgage-backed securities	174,208	813	(1,817)	173,204
Corporate obligations	500	16		516
Marketable equity securities	9,237	4		9,241
Total available for sale	342,527	8,288	(1,955)	348,860
Held to maturity at December 31, 2003				
State and municipal	7,860	389		8,249
Mortgage-backed securities	77			77
Total held to maturity	7,937	389		8,326
Total investment securities	$350,464	$ 8,677	$ (1,955)	$357,186

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

NOTE 3. Loans and Allowance

	March 31, 2004	December 31, 2003
Loans:		
Commercial and industrial loans	$ 439,019	$ 443,140
Agricultural production financing and other loans to farmers	89,055	95,048
Real estate loans:		
Construction	144,622	149,865
Commercial and farmland	574,504	564,578
Residential	847,554	866,477
Individuals' loans for household and other personal expenditures	197,188	196,093
Tax-exempt loans	7,348	16,363
Other loans	20,813	21,939
	2,320,103	2,353,503
Allowance for loan losses	(26,459)	(25,493)
Total Loans	$ 2,293,644	$ 2,328,010

	Three Months Ended March 31, 2004	Three Months Ended March 31, 2003
Allowance for loan losses:		
Balances, January 1	$ 25,493	$ 22,417
Allowance acquired in acquisition		3,727
Provision for losses	1,372	4,601
Recoveries on loans	297	496
Loans charged off	(703)	(1,508)
Balances, March 31	$ 26,459	$ 29,733

Information on nonaccruing, contractually past due 90 days or more other than nonaccruing and restructured loans is summarized below:	March 31, 2004	December 31, 2003
As of:		
Non-accrual loans	$ 19,914	$ 19,453
Loans contractually past due 90 days or more other than nonaccruing	4,770	6,530
Restructured loans	957	641
Total	$ 25,641	$ 26,624

FIRST MERCHANTS CORPORATION

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

NOTE 4. Net Income Per Share

	Three Months Ended March 31,					
	2004			2003		
	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.................	$ 6,935	18,518,282	$ .37	$ 5,658	17,565,405	$ .32
Effect of dilutive stock options........		127,289			110,228	
Diluted net income per share:						
Net income available to						
common stockholders						
and assumed conversions.............	$ 6,935	18,645,571	$ .37	$ 5,658	17,675,633	$ .32

Options to purchase 234,285 and 239,235 share for the three months ended March 31, 2004 and 2003 were not included in the earnings per share calculation because the exercise price exceded the average market price.

(Table dollars in thousands)

Note 5. Defined Benefit Pension Costs

The Corporation has defined benefit pension plans covering substantially all employees. The plans provide benefits that are based on the employees' compensation and years of service. The Corporation uses an actuarial calculation to determine pension plan costs.

The following represents the pension cost for the three months ended March 31.

	Three Months Ended March 31, 2004	Three Months Ended March 31, 2003
Pension Cost		
Service cost	$ 550	$ 392
Interest cost	698	654
Expected return on plan assets	(660)	(630)
Amortization of the transition asset	(38)	(38)
Amortization of prior service cost	34	34
Amortization of the net loss	88	65
Total Pension Cost	$ 672	$ 477

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 "believe", "continue", "pattern", "estimate", "project", "intend", "anticipate", "expect" and similar expressions or future or conditional verbs such as "will", "would", "should", "could", "might", "can", "may", or 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 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;
* 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;
* acquisitions of other businesses by the Corporation and integration of such acquired businesses;
* changes in market, economic, operational, liquidity, credit and interest rate risks associated with the Corporation's business; and
* the continued availability of earnings and excess capital sufficient for the lawful and prudent declaration and payment of cash dividends.

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.

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

CRITICAL ACCOUNTING POLICIES

Generally accepted accounting principles are complex and require management to apply significant judgments to various accounting, reporting and disclosure matters. Management of the Corporation must use assumptions and estimates to apply these principles where actual measurement is not possible or practical. For a complete discussion of the Corporation's significant accounting policies, see "Notes to the Consolidated Financial Statements" in the Corporation's 2003 Annual Report. Certain policies are considered critical because they are highly dependent upon subjective or complex judgments, assumptions and estimates. Changes in such estimates may have a significant impact on the financial statements. Management has reviewed the application of these policies with the Audit Committee of the Corporation's Board of Directors. For a discussion of applying critical accounting policies, see "Critical Accounting Policies" beginning on page 4 in the Corporation's 2003 Annual Report.

RESULTS OF OPERATIONS

Net income for the three months ended March 31, 2004, equaled $6,935,000, compared to $5,658,000 in the same period of 2003. Diluted earnings per share were $.37, an increase of 15.6 percent from the $.32 reported for the first quarter 2003.

Annualized returns on average assets and average stockholders' equity for the three months ended March 31, 2004 were .91 percent and 9.05 percent, respectively, compared with .83 percent and 8.29 percent for the same period of 2003.

The increases in diluted earning per share, return on equity and return on assets are primarily due to decreased provision for loans losses and a first quarter 2004 increase in net interest margin, as compared to the fourth quarter margin of 2003. For further analysis, see the respective sections of Management's Discussion and Analysis of Financial Conditions and Results of Operations.

CAPITAL

The Corporation's regulatory capital continues to exceed regulatory "well capitalized" standards. Tier I regulatory capital consists primarily of total stockholders' equity and trust-preferred securities, less non-qualifying intangible assets and unrealized net securities gains. The Corporation's Tier I capital to average assets ratio was 7.5 percent at March 31, 2004 and 7.4 percent at year end 2003. In addition, at March 31, 2004, the Corporation had a Tier I risk-based capital ratio of 9.6 percent and total risk-based capital 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's GAAP capital ratio, defined as total stockholders' equity to total assets, equaled 10.2 percent as of March 31, 2004, up from 9.9 percent in 2003. When the Corporation acquires other companies, GAAP capital increases by the entire amount of the purchase price.

The Corporation's tangible capital ratio, defined as total stockholders' equity less intangibles net of tax to total assets less intangibles net of tax, equaled 6.1 percent as of March 31, 2004, up from 5.8 percent in 2003.

Management believes that all of the above capital ratios are meaningful measurements for evaluating the safety and soundness of the Corporation. Additionally, management believes the following table is also meaningful when considering performance measures of the Corporation. The table details and reconciles tangible earnings per share, return on tangible capital and tangible assets to traditional GAAP measures.

(Dollars in Thousands)	March 31, 2004	December 31, 2003
Average Goodwill	$ 112,281	$ 107,232
Average Core Deposit Intangible (CDI)	23,423	24,393
Average Deferred Tax on CDI	(8,562)	(8,951)
Intangible Adjustment	$ 127,142	$ 122,674
Average Stockholders' Equity (GAAP Capital)	$ 306,592	$ 293,603
Intangible Adjustment	(127,142)	(122,674)
Average Tangible Capital	$ 179,450	$ 170,929
Average Assets	$ 3,041,837	$ 2,960,195
Intangible Adjustment	(127,142)	(122,674)
Average Tangible Assets	$ 2,914,695	$ 2,837,521
Net Income	$ 6,935	$ 27,571
CDI Amortization, net of tax	567	2,341
Tangible Net Income	$ 7,502	$ 29,912
Diluted Earnings per Share	$ 0.37	$ 1.50
Diluted Tangible Earnings per Share	$ 0.40	$ 1.63
Return on Average GAAP Capital	9.05%	9.39%
Return on Average Tangible Capital	16.72%	17.50%
Return on Average Assets	0.91%	0.93%
Return on Average Tangible Assets	1.03%	1.05%

ASSET QUALITY/PROVISION FOR LOAN LOSSES

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 primarily 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 are not specifically identified.

At March 31, 2004, non-performing loans totaled $25,641,000, a decrease during the period of $983,000 from December 31, 2003, as noted in the table on the following page.

At March 31, 2004, impaired loans totaled $46,230,000, an increase of $1,458,000 from December 31, 2003. At March 31, 2004, an allowance for losses was not deemed necessary for impaired loans totaling $33,084,000, but an allowance of $6,442,000 was recorded for the remaining balance of impaired loans of $13,146,000 and is included in the Corporation's allowance for loan losses. The average balance of impaired loans for the first three months of 2004 was $41,191,000.

At December 31, 2003, impaired loans totaled $44,772,000. An allowance for losses was not deemed necessary for impaired loans totaling $32,047,000, but an allowance of $5,728,000 was recorded for the remaining balance of impaired loans of $12,725,000 and is included in the Corporation's allowance for loan losses. The average balance of impaired loans for 2003 was $50,245,000.

At March 31, 2004, the allowance for loan losses was $26,459,000, an increase of $966,000 from year end 2003. As a percent of loans, the allowance was 1.14 percent at March 31, 2004 compared with 1.08 percent at December 31, 2003.

The provision for loan losses for the first three months of 2004 was $1,372,000, a decrease of $3,229,000 from $4,601,000 for the same period in 2003. The Corporation's provision for loan losses reflects reduced net chargeoffs and non-performing loans, resulting in decreased provision expense. Current declines in the amount of non-performing loans and average impaired loan balances indicate that loan asset quality has improved during the first quarter of 2004.

LIQUIDITY

Liquidity management is the process by which the Corporation ensures that adequate liquid funds are available for the Corporation and its subsidiaries. These funds are necessary in order for the Corporation and its subsidiaries to meet financial commitments on a timely basis. These commitments include withdrawals by depositors, funding credit obligations to borrowers, paying dividends to shareholders, paying operating expenses, funding capital expenditures, and maintaining deposit reserve requirements. Liquidity is monitored and closely managed by the asset/liability committees at each subsidiary and by the Corporation's asset/liability committee.

The liquidity of the Corporation is dependent upon the receipt of dividends from its bank subsidiaries, which are subject to certain regulatory limitations and access to other funding sources. Liquidity of the Corporation's bank subsidiaries is derived primarily from core deposit growth, principal payments received on loans, the sale and maturity of investment securities, net cash provided by operating activities, and access to other funding sources. The most stable source of liability-funded liquidity for both the long-term and short-term is deposit growth and retention in the core deposit base. In addition, the Corporation utilizes advances from the Federal Home Loan Bank ("FHLB") and a revolving line of credit with LaSalle Bank, N.A. as a funding source. At March 31, 2004, total borrowings from the FHLB were $226,132,000. The Corporation's bank subsidiaries have pledged certain mortgage loans and certain investments to the FHLB. The total available remaining borrowing capacity from the FHLB at March 31, 2004, was $182,716,000. At March 31, 2004, the Corporation's revolving line of credit had a balance of $10,594,000 and a remaining borrowing capacity of $9,406,000. The principal source of asset-funded liquidity is investment securities classified as available-for-sale, the market values of which totaled $370,469,000 at March 31, 2004, an increase of $21,609,000 or 6.2% over December 31, 2003. Securities classified as held-to-maturity that are maturing within a short period of time can also be a source of liquidity. Securities classified as held-to-maturity and that are maturing in one year or less totaled $860,000 at March 31, 2004. In addition, other types of assets such as cash and due from banks, federal funds sold and securities purchased under agreements to resell, and loans and interest-bearing deposits with other banks maturing within one year are sources of liquidity.

In the normal course of business, the Corporation is a party to a number of other off-balance sheet activities that contain credit, market and operational risk that are not reflected in whole or in part in the Corporation's consolidated financial statements. Such activities include: traditional off-balance sheet credit-related financial instruments, commitments under operating leases and long-term debt.

The Corporation provides customers with off-balance sheet credit support through loan commitments and standby letters of credit. Summarized credit-related financial instruments at March 31, 2004 are as follows:

(Dollars in thousands)	At March 31, 2004
Amounts of commitments:	
Loan commitments to extend credit	$ 537,001
Standby letters of credit	27,736
	$ 564,737

Since many of the commitments are expected to expire unused or be only partially used, the total amount of unused commitments in the preceding table does not necessarily represent future cash requirements.

In addition to owned banking facilities, the Corporation has entered into a number of long-term leasing arrangements to support the ongoing activities of the Corporation. The required payments under such commitments and long-term debt at March 31, 2004 are as follows:

(Dollars in thousands)	2004 remaining	2005	2006	2007	2008	2009 and after	Total
Operating leases	$ 1,153	$ 1,443	$ 1,327	$ 1,112	$ 916	$ 3,255	$ 9,206
Long-term debt	76,662	24,500	25,882	18,995	51,464	173,497	371,000
Total	$ 77,815	$ 25,943	$ 27,209	$ 20,107	$ 52,380	$176,752	$380,206

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 , 2004, 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 December 31, 2004 assume further interest rate changes in addition to the base simulation discussed above. These changes are immediate and parallel changes to the base case scenario. 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 December 31, 2004 are as follows:

Driver Rates	RISING	FALLING
Prime	200 Basis Points	(200) Basis Points
Federal Funds	200	(100)
One-Year T-Bill	200	(138)
Two-Year T-Bill	200	(194)
Interest Checking	100	(14)
MMIA Savings	100	(24)
First Flex	100	(24)
CD's	200	(59)
FHLB Advances	200	(117)

Results for the base, rising and falling interest rate scenarios are listed below. 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)	$100,873	$102,792	$ 87,217
Variance from base		$ 1,919	$(13,655)
Percent of change from base		1.90%	(13.54)%

EARNING ASSETS

The following table presents the earning asset mix as of March 31, 2004, and December 31, 2003.

Loans decreased approximately $32.7 million from December 31, 2003 to March 31, 2004, while investment securities increased by $20.2 million during the same period.

EARNING ASSETS (Dollars in Millions)	March 31, 2004	December 31, 2003
Federal funds sold and interest-bearing deposits	$ 10.7	$ 40.6
Investment securities available for sale	370.5	348.9
Investment securities held to maturity	6.5	7.9
Mortgage loans held for sale	3.8	3.0
Loans	2,320.1	2,353.6
Federal Reserve and Federal Home Loan Bank stock	22.0	15.5
Total	$ 2,733.6	$ 2,769.5

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, subordinated debentures and other borrowed funds)at March 31, 2004, and December 31, 2003.

(Dollars in Millions)	March 31, 2003	December 31, 2003
Deposits	$ 2,313.4	$ 2,362.1
Securities sold under repurchase agreements......	42.0	71.1
Federal funds purchased and U.S. Treasury demand notes................	3.3	
Federal Home Loan Bank advances	226.1	212.8
Subordinated debentures, revolving credit lines and term loans................................	99.6	97.8
Other borrowed funds	1.4	1.5

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 headings "LIQUIDITY" and "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, 2004 and 2003.

Annualized net interest income (FTE) for the three months ended March 31, 2004 decreased by $2.2 million, or 2.0 percent over the same period in 2003. For the same period interest income and interest expense, as a percent of average earning assets, decreased 78 basis points and 27 basis points respectively. This resulted in a 51 basis point decline in net interest income, as a percent of average earning assets, from the first quarter 2003 margin of 4.38 percent. Federal Reserve Bank rate reductions during 2003 significantly contributed to this margin compression; however, management's ability to favorably reprice deposit interest costs caused the first quarter of 2004 net interest margin of 3.87 percent to increase 9 basis points, as compared to the fourth quarter 2003 net interest margin of 3.78 percent.

	Three Months Ended March 31,	
(Dollars in Thousands)	2004	2003
Annualized Net Interest Income........................	$ 102,528	$ 104,040
Annualized FTE Adjustment.............................	$ 3,433	$ 4,096
Annualized Net Interest Income On a Fully Taxable Equivalent Basis.................	$ 105,961	$ 108,136
Average Earning Assets................................	$2,739,297	$2,464,319
Interest Income (FTE) as a Percent of Average Earning Assets...........................	5.71%	6.49%
Interest Expense as a Percent of Average Earning Assets...........................	1.84%	2.11%
Net Interest Income (FTE) as a Percent of Average Earning Assets...........................	3.87%	4.38%

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. In addition, annualized amounts are computed utilizing a 30/360 day basis.

OTHER INCOME

Other income in the first quarter of 2004 was $70,000 or .8 percent lower than the same quarter of 2003. There were no significant fluctuations of specific income areas in comparing the first quarter of 2004 to the same period in 2003.

OTHER EXPENSES

Total other expenses represent non-interest operating expenses of the Corporation. Total other expenses during the first quarter of 2004 exceeded the same period of the prior year by $1,123,000, or 5.2 percent.

Two areas account for most of the increase:

1. Salaries and benefit expense grew $1,247,000 or 10.6 percent, due to normal salary increases, staff additions and additional salary cost related to the March 1, 2003 acquisition of Commerce National Bank.

2. Prepayment penalties for early prepayment of FHLB advances were $340,000 for the first quarter of 2003. There were no such penalties incurred during the first quarter of 2004.

INCOME TAXES

Income tax expense, for the three months ended March 31, 2004, increased by $381,000 from the same period in 2003. The effective tax rate was 30.0 and 31.5 percent for the 2004 and 2003 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 headings "LIQUIDITY" and "INTEREST SENSITIVITY AND DISCLOSURES ABOUT MARKET RISK".

Item 4. Controls and Procedures

At the end of the period covered by this report, the Corporation carried out an evaluation, under the supervision and with the participation of the Corporation's management, including the Corporation's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of it's disclosure controls and procedures. Based upon that evaluation, the Corporation's Chief Executive Officer and Chief Financial Officer concluded that the Corporation's disclosure controls and procedures are effective. Disclosure controls and procedures are controls and procedures that are designed to ensure that information required to be disclosed in Corporation reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

There have been no changes in the Corporation's internal controls over financial reporting identified in connection with the evaluation referenced above that occurred during the Corporation's last fiscal quarter that have materially affected, or is reasonably likely to materially affect, the Corporation's internal control over financial reporting.

FIRST MERCHANTS CORPORATION

FORM 10-Q

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 2. Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities

a. None

b. None

c. None

d. None

e. Issuer Purchases of Equity Securities

The following table presents information related to repurchases of common stock the Corporation made during the three months ended March 31, 2004.

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per share	Total Number of Shares Purchased Under the Program	Maximum Number of Shares that May Yet Be Purchased Under the Programs
January 1-31, 2004 (1)	-	-	-	-
February 1-10, 2004 (1)	-	-	-	-
February 11-29, 2004 (2)	-	-	-	250,000
March 1-31, 2004 (2)	-	-	-	250,000
Total	-	-	-	250,000

(1) In February 2003, the Board of Directors of the Corporation authorized management to repurchase up to 250,000 shares of its common stock on the open market through February 10, 2004. The price and timing of the common stock repurchases were to be within the discretion of management. There were no shares repurchased under this program.

(2) In February 2004, the Board of Directors of the Corporation authorized management to repurchase up to 250,000 shares of its common stock on the open market through February 8, 2005. The price and timing of the common stock repurchases shall be within the discretion of management. As of March 31, 2004, there have been no shares repurchased under this program.

In March 2004, the Corporation redeemed common shares from employees or former employees to facilitate the exercise of stock options outstanding under the Corporation's stock option plans. The number of shares purchased totaled 2,511 shares, and the average price paid per share was $25.79.

Item 3. Defaults Upon Senior Securities

None

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

None

Item 5. Other Information

a. None

b. None

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

a. Exhibits

Exhibit No.:	Description of Exhibit:	Form 10-Q Page No.:
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes - Oxley Act of 2002	30
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes - Oxley Act of 2002	31
32	Certifications Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	32

Item 6. Exhibits and Reports on Form 8-K continued

b. Reports on Form 8-K

A report on Form 8-K, dated January 21, 2004, was filed on January 21, 2004 under report items number 9 and 7, concerning the Press Release announcing fourth quarter 2003 earnings.

Under report item number 7, the following exhibit was included in this Form 8-K.

(c) Exhibit

(99) Press Release, dated January 21, 2004, issued by First Merchants Corporation

A report on Form 8-K, dated February 13, 2004, was filed on February 13, 2004 under report item number 5, concerning the Corporation's declaration of a cash dividend on its shares of common stock to be paid on March 19, 2004. The dividend was payable to shareholders of record on March 5, 2004.

Under report item number 7, the following exhibit was included in the Form 8-K.

(c) Exhibit

(99) Press release dated February 13, 2004.

A report on Form 8-K, dated March 5, 2004 was filed on March 5, 2004 under report item 9, concerning the Corporation's mailing of its 2003 Annual Report to Shareholders to its shareholders of record on February 13, 2004.

Under report item number 9, the following exhibit was included in this Form 8-K.

(c) Exhibit

(99) 2003 Annual Report to Shareholders (Furnished pursuant to Regulation FD)

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 5/10/04 by /s/ Michael L. Cox

Michael L. Cox
President and Chief Executive Officer

Date 5/10/04 by /s/ Mark K. Hardwick

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

FIRST MERCHANTS CORPORATION

FORM 10-Q

INDEX TO EXHIBITS

INDEX TO EXHIBITS

(a)3. Exhibits:

Exhibit No.:	Description of Exhibit:	Form 10-Q Page No.:
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes - Oxley Act of 2002	30
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes - Oxley Act of 2002	31
32	Certifications Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	32

Exhibit 31.1

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Michael L. Cox, President and Chief Executive Officer of First Merchants Corporation, certify that:

1. I have reviewed this quarterly report on Form 10-Q of First Merchants Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and

   (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board or directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2004

/s/Michael L. Cox

Michael L. Cox
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002

I, Mark K. Hardwick, Senior Vice President and Chief Financial Officer of First Merchants Corporation, certify that:

1. I have reviewed this quarterly report on Form 10-Q of First Merchants Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and

   (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board or directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2004

/s/Mark K. Hardwick

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

Exhibit 32

CERTIFICATIONS PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of First Merchants Corporation (the "Corporation") on Form 10-Q for the period ending March 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I Michael L. Cox, President and Chief Executive Officer of the Corporation, do hereby certify, in accordance with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o (d)); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

Date May 10, 2004 by /s/ Michael L. Cox

Michael L. Cox
President and Chief Executive Officer

A signed copy of this written statement required by Section 906 has been provided to First Merchants Corporation and will be retained by First Merchants Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

In connection with the quarterly report of First Merchants Corporation (the "Corporation") on Form 10-Q for the period ending March 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I Mark K. Hardwick, Senior Vice President and Chief Financial Officer of the Corporation, do hereby certify, in accordance with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o (d)); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

Date May 10, 2004 by /s/ Mark K. Hardwick

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

A signed copy of this written statement required by Section 906 has been provided to First Merchants Corporation and will be retained by First Merchants Corporation and furnished to the Securities and Exchange Commission or its staff upon request.