FORM 10-K

Annual report pursuant to section 13 and 15(d)

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FILER

SOMERSET GROUP INC

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SIC: **3272** Concrete products, except block & brick

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FORM 10-K--ANNUAL REPORT PURSUANT TO SECTION 13
OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

[x] Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 - For the fiscal year ended December 31, 1998. or
[ ] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number: 0-14227

THE SOMERSET GROUP, INC.
(Exact name of registrant as specified in its charter)

INDIANA	35-1647888
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)

135 N. Pennsylvania Street, #2800, Indianapolis, IN	46204
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: 317/269-1285
Securities registered pursuant to Section 12(b) of the Act: NONE
Securities registered pursuant to Section 12(g) of the Act:

Title of each class	Name of each exchange on which registered
Common stock without par value	over-the-counter: NASDAQ National Market System

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [x]

The aggregate market value of the voting stock held by non-affiliates of the Registrant was $46,341,734 as of February 26, 1999.

As of February 26, 1999, there were 2,873,906 outstanding shares of the Capital Stock of the Registrant.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement for the year ended December 31, 1998 are incorporated by reference into Part III.

Portions of the Form 10-K of First Indiana Corporation for the year ended December 31, 1998 are incorporated by reference into Part I.

THE SOMERSET GROUP, INC.

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PART I
ITEM 1 - BUSINESS

General Description of Business
The Somerset Group, Inc. (The "Company" or "Registrant"), is a nondiversified, unitary savings and loan holding company. Its major asset is a 21.7% ownership interest in First Indiana Corporation ("First Indiana"), which owns 100% of First Indiana Bank (the "Bank"). The Company operates First Indiana Investor, which market insurance and investment products primarily to Bank customers.

As a result of a merger on January 20, 1998 with Whipple & Company P.C. ("Whipple"), a division of the Company, Somerset Financial Services provides tax accounting, health care consulting, investment and wealth management, and management consulting services.

Financial Information About Business Segments
Described below are the operations of the Company's segments. Financial information about the segments is incorporated by reference to Note 10 of the Notes to Consolidated Financial Statements on page 28 of this report.

Narrative Description of Business

I. Insurance and Investment Products Segment
The Company sells insurance and non-insured investment products through two divisions: First Indiana Insurance Services and First Indiana Investor Services. First Indiana Insurance Services products consist of tax-deferred fixed-rate annuities, life insurance, and property and casualty insurance. First Indiana Investor Services products consist primarily of mutual funds and variable-rate annuities. These products are marketed to customers of First Indiana Bank and to the general public in the state of Indiana. Revenue from this segment consists of commissions from the insurance companies and the broker/dealer represented.

II. Financial Services Segment
The Company's former Somerset Wealth Management division was merged with Whipple on January 20, 1998. The merged operations formed a new division, Somerset Financial Services. This division offers a wide array of financial consulting services that includes tax planning and preparation, retirement and estate planning, investment and wealth management, health care consulting, and computer network design and support. Revenue of this segment is on a fee-only basis, with no revenue from the sale of products.

III. Information Technology Segment
On January 5, 1999, the Company formed an information technology segment by merging the computer network design and support department of Somerset Financial Services with assets and business purchased from two information technology companies and formed a 100% owned subsidiary, Paradym Technologies, Inc. ("Paradym"). Paradym will provide information technology consulting to the general public. Services include network design and support, corporate internet access, design of web based processing systems, and design and installation of surveillance and security systems.

IV. Banking Segment
Information on the Registrant's bank affiliate, First Indiana Corporation, is incorporated into this Report by reference to Item 1 of the 1998 Report on Form 10-K for First Indiana Corporation for the year ended December 31, 1998, filed separately under Commission file number 0-14354.

ITEM 2 - PROPERTIES
The Registrant's property consists of office equipment and furniture in leased office space. The leased office space consists of 1,244 square feet located at Suite 2800, First Indiana Plaza, Indianapolis, Indiana, 1,200 square feet located at 10044 E. Washington Street, Indianapolis, Indiana, and 16,657 square feet located at 8425 Woodfield Crossing Blvd., Indianapolis, Indiana.

ITEM 3 - LEGAL PROCEEDINGS
Information relative to this item is incorporated into this Report by reference to Note 13 of the Notes to Consolidated Financial Statements, on page 33 of this report.

ITEM 4 - SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS
No matters were submitted to a vote of security holders during the final quarter of the fiscal period covered by this report.

PART II

ITEM 5 - MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED SECURITY HOLDER MATTERS This information is set forth under the caption "Market for the Company's Common Stock" on page 9 of this Report.

ITEM 6 - SELECTED FINANCIAL DATA
This information is set forth under the caption "Selected Financial Data" on page 9 of this Report.

ITEM 7 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION AND LIQUIDITY
This information is set forth under the caption "Management's Discussion and Analysis of Results of Operations and Financial Condition and Liquidity" on pages 10 through 14 of this Report.

ITEM 8 - FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
This information is contained in the Consolidated Financial Statements, Notes to Consolidated Financial Statements and Independent Auditors' Report on pages 15 through 33 of this Report. Information on the Registrant's bank affiliate, First Indiana, is incorporated by reference to Item 8 of the 1998 Report on Form 10-K for First Indiana, filed separately under Commission file number 0-14354.

ITEM 9 - CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE
The Registrant had no changes in and no disagreements with its accountants regarding accounting and financial disclosure.

PART III

ITEM 10 - DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Directors
Information regarding Directors of the Registrant is incorporated into this Report by reference to the definitive proxy statement of the Registrant for the Annual Meeting of Shareholders to be held April 21, 1999, under the caption "Proposal No. 1: Election of Directors", filed separately under Commission file number 0-14227.

Executive Officers

Name	Office Held	Relationship	Age
Robert H. McKinney	Chairman and Director	Father of President and Vice President	73
Marni McKinney	President, CEO and Director	Daughter of Chairman	42
Joseph M. Richter	Executive Vice President Finance and Treasurer	None	56
Robert S. Kaspar	Executive Vice President Business Development	None	40
Patrick J. Early	President of Somerset Financial Services Division	None	41

The term of office for all officers of the Registrant continues until the first meeting of the Board of Directors following the Annual Meeting of Shareholders on April 21, 1999.

A brief account of the business experience of each Executive Officer during the past five years is as follows:

Robert H. McKinney - Chairman of the Registrant; Chairman and Chief Executive Officer of First Indiana Corporation; Chairman of the Executive Committee of First Indiana Bank; Chief Executive Officer until May 1992; retired Partner of Bose McKinney & Evans, attorneys; a Director of First Indiana Corporation; Chairman, Federal Home Loan Bank Board (1977-1979).

Marni McKinney - President, Chief Executive Officer, and a Director of the Registrant; Chairman and a Director of First Indiana Corporation and First

Indiana Bank; formerly Vice Chairman (1992 - 1998), Chief Operating Officer of the Registrant (1992 - 1995); formerly Vice President and Director of Strategic Planning of First Indiana Bank.

Joseph M. Richter - Executive Vice President, Finance and Treasurer of the Registrant. Formerly, Executive Vice President, CFO and Treasurer (1990 - 1997) Robert S. Kaspar - Executive Vice President, Business Development; formerly President of Somerset Wealth Management, a former division (1997 - 1998); formerly President and Director of Irwin Union Investor Services, a subsidiary of Irwin Financial Corporation (1990 - 1996).

Patrick J. Early - President of Somerset Financial Services, a Division of the Corporation; formerly, President of Whipple & Company, P.C.; Certified Public Accountant, Certified Financial Planner and Personal Financial Specialist.

ITEM 11 - EXECUTIVE COMPENSATION

Information relative to this item is incorporated into this Report by reference to the definitive proxy statement of the Registrant for the Annual Meeting of Shareholders to be held April 21, 1999, under the caption "Compensation of Directors and Executive Compensation".

ITEM 12 - SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT
Information relative to this item is incorporated into this Report by reference to the definitive proxy statement of the Registrant for the Annual Meeting of Shareholders to be held April 21, 1999, under the caption "Voting Securities and Principal Holders Thereof".

ITEM 13 - CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS
Information relative to this item is incorporated into this Report by reference to the definitive proxy statement of the Registrant for the Annual Meeting of Shareholders to be held April 21, 1999, under the caption "Certain Transactions".

PART IV

ITEM 14 - EXHIBITS, FINANCIAL STATEMENTS, SCHEDULES AND REPORTS ON FORM 8-K

(a) 1. The financial statements listed in the accompanying Index to Selected Financial Data, Management's Discussion and Analysis of Results of Operations and Financial Condition and Liquidity, Financial Statements and Financial Statement Schedules are filed as part of this report.

2. The financial statement schedules listed in the accompanying Index to Selected Financial Data, Management's Discussion and Analysis of Results of Operations and Financial Condition and Liquidity, Financial Statements and Financial Statement Schedules are filed as part of this report.

3. Exhibits - The following exhibits are attached to this Form 10-K.

Exhibit Number	Exhibit
3	Amended Articles of Incorporation and Amended and Restated By-laws thereto.
22	Subsidiaries of the Registrant.
23	Definitive Proxy Statement for Annual Meeting of Shareholders to be held April 21, 1999.
24	Consent of Independent Certified Public Accountants, of report dated February 6, 1998, for incorporation into Form S-8 registration statement.
99	First Indiana Corporation's Form 10-K for the year ended December 31, 1997.

All other exhibits are not attached since they are not applicable to the Registrant:

(b) Reports on Form 8-K.
(c) Financial Statement Schedules.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE SOMERSET GROUP, INC.

By s/ Robert H. McKinney 3/17/99
Robert H. McKinney, Chairman

By s/ Marni McKinney 3/17/99
Marni McKinney, President and
Principal Executive Officer

By s/ Joseph M. Richter 3/17/99
Joseph M. Richter, Executive Vice
President and Principal Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant in the capacities indicated and on the date indicated.

Signatures	Title	Date
s/ Robert H. McKinney Robert H. McKinney	Director, Chairman	3/17/99
s/ Marni McKinney Marni McKinney	Director, President and Principal Executive Officer	3/17/99
s/ Kevin K. McKinney Kevin K. McKinney	Director and Vice President	3/17/99
s/ H. J. Baker H. J. Baker	Director	3/17/99
s/ Patrick J. Early Patrick J. Early	Director	3/17/99
s/ William L. Elder William L. Elder	Director	3/17/99
s/ Douglas W. Huemme Douglas W. Huemme	Director	3/17/99
s/Malcolm A. Leslie Malcolm A. Leslie	Director	3/17/99

s/Gary L. Light Gary L. Light	Director	3/17/99
s/ Michael L. Smith Michael L. Smith	Director	3/17/99

THE SOMERSET GROUP, INC.

Form 10-K for the Year Ended December 31, 1998
Items 5, 6, 7, 8, 14(a) (1) and (2), and 14(c)

Index to Selected Financial Data,
Management's Discussion and Analysis of Results of
Operations and Financial Condition and Liquidity,
Financial Statements and Financial Statement Schedules

Selected Financial Data, Management's Discussion and Analysis of Results of Operations and Financial Condition and Liquidity, Financial Statements and Schedules of the Registrant and its subsidiaries, required to be included in Items 5, 6, 7, 8, 14(a) (1) and (2), and 14(c) are listed below:

FINANCIAL STATEMENT SCHEDULES:

Financial statement schedules have been omitted because the required information is contained in the notes to the financial statements or because such schedules are not required or are not applicable.

The individual financial statements of the Registrant have been omitted since the Registrant is primarily an operating company and all subsidiaries included in the consolidated statements being filed, in the aggregate, do not have minority equity interest and/or indebtedness to any person other than the Registrant or its consolidated subsidiaries in amounts which together exceed 25% of consolidated net assets as shown by the most recent consolidated balance sheet. All other schedules are omitted because they are not applicable or the required information is shown in the financial statements or the notes thereto.

SELECTED FINANCIAL DATA (1)
(Dollars in thousands except per share amounts)

	Years Ended December 31,				
	1998	1997	1996	1995	1994
Fees, commissions and investment income	$7,656	$7,242	$6,532	$5,099	$3,937
Equity in earnings of First Indiana	4,130	3,883	3,003	3,938	2,616
Gross profit of construction operations (2)	---	---	---	1,649	4,303
Income from operations before income taxes	4,001	3,567	3,123	5,571	4,159
Net income	2,865	2,536	2,145	3,355	2,624
Net income per share - basic (3)	.99	.87	.75	1.16	.92
Net income per share - diluted (3)	.97	.86	.73	1.15	.90

	as of December 31,				
	1998	1997	1996	1995	1994
Working capital	$5,795	$6,251	$5,998	$9,146	$6,917
Carrying value-investment in First Indiana	36,104	32,406	29,746	27,549	24,265
Market value-investment in First Indiana	55,169	68,515	48,470	38,882	23,782
Total assets	44,773	42,460	39,718	40,188	41,075
Long-term debt	---	30	44	2,500	5,500
Total liabilities	9,310	9,000	8,121	10,429	14,392
Shareholders' equity	35,463	33,460	31,597	29,759	26,683
Cash dividends per share (3)	.18	.18	.16	.128	.064
Book value per share (3)	12.26	11.55	10.91	0.41	9.26

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(1) All historical amounts have been restated for a merger that occurred January 20, 1998.
(2) The construction operations were sold in June 1995.
(3) Per share amounts have been adjusted for five-for-four stock splits that were effective February 26, 1997, and February 29, 1996.

MARKET FOR THE COMPANY'S COMMON STOCK

The Company's common stock trades on The NASDAQ National Market System under the symbol SOMR. The quarterly range of prices for the Company's common stock for the years ended December 31, 1998 and 1997 is presented below:

	1998		1997	
Quarter	High	Low	High	Low
First - ended March 31,	$25.625	$19.250	$20.75	$14.25(a)
Second - ended June 30,	$24.250	$21.000	$15.50	$13.50
Third - ended September 30,	$25.000	$17.875	$15.75	$13.50
Fourth - ended December 31,	$18.875	$15.750	$22.00	$14.94

As of February 26, 1999, there were 192 shareholders of record and approximately 840 beneficial owners.

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(a) A five-for-four stock split was effective February 26, 1997.

MANAGEMENT?S DISCUSSION AND ANALYSIS

RESULTS OF OPERATIONS

Earnings for the year ended December 31, 1998 of $2,865,000 were 13% above comparable earnings for 1997 of $2,536,000, and 34% above earnings for 1996 of $2,145,000. Earnings for 1998 were lowered by non-recurring expenses for the merger with Whipple and Company, P.C. ("Whipple") that occurred in the first quarter of 1998. These expenses reduced net earnings approximately $100,000. If these expenses were excluded from 1998 results, earnings increased to $2,965,000, an increase of 17% over the 1997 earnings and 38% over the 1996 earnings.

The merger was accounted for as a pooling-of-interests business combination, and all historical amounts have been restated to include the financial results of Whipple as if the merger had occurred at the beginning of all time periods presented in this Annual Report.

Net earnings during each of the three years ended December 31, 1998, by source of revenue and income, is presented below to provide an overall perspective of the results of each of the Company's operations.

	Amounts are After Income Taxes					
	1998		1997		1996	
	Amount	Per* Share	Amount	Per* Share	Amount	Per* Share
Fee income	$ 198,000	$.07	$ (43,000)	$(.01)	$ 106,000	$.04
Commissions and investment income	273,000	.09	411,000	.14	425,000	.14
Equity in earnings of First Indiana	2,929,000	.99	2,693,000	.91	2,137,000	.73
	3,400,000	1.15	3,061,000	1.04	2,668,000	.91
General corporate expenses	(435,000)	(.15)	(525,000)	(.18)	(523,000)	(.18)
Net income before merger expenses	2,965,000	1.00	2,536,000	.86	2,145,000	.73
Merger expenses	(100,000)	(.03)	---	---	---	---
Net income	$2,865,000	$.97	$2,536,000	$.86	$2,145,000	$.73

* Per average diluted share outstanding.

Fee income and commissions and investment income represent the Company's direct operations in the financial services industry. The operations consist of two divisions of the Company: Somerset Financial Services division and First Indiana Investor Services division.

Fee income is generated by Somerset Financial Services that was formed in 1998 as a result of the merger with Whipple. The merger combined the Company's former financial advisory and asset management operations with the operations of Whipple. Services provided by this division are paid for on an independent consulting fee only basis, with no revenue generated from the sale of any products. Commission income is generated by First Indiana Investor Services. Operations consist of an insurance agency and an investment-marketing department that offers non- Federal Deposit Insurance Corporation ("FDIC") insured insurance and investment products primarily to customers of First Indiana Bank. Revenue is commission based from the insurance companies and investment product issuers it represents. Also included in this category is income generated from the Company's own investment portfolio.

FEES, COMMISSIONS AND INVESTMENT INCOME

Revenue from fees, commissions and investment income for the three years ended December 31, 1998 were as follows:

	1998	1997	1996
Fee revenue	$6,386,000	$5,765,000	$5,069,000
Commission revenue	941,000	1,084,000	1,006,000
	7,327,000	6,849,000	6,075,000
Investment income	329,000	393,000	457,000
	$7,656,000	$7,242,000	$6,532,000

Revenue from fees and commissions during 1998 of $7,327,000 represented an increase of 7% over 1997 revenue of $6,849,000, and a 21% increase over 1996 revenue of $6,075,000. Increased fee income for health care consulting, investment and wealth management, and tax preparation and consulting services were the service specialties primarily responsible for the increase. These increases more than offset the loss of revenue in 1998 from attestation services. Attestation services included financial statement audits, compilations and reviews. The business providing these services was sold by Whipple & Company P.C. prior to the merger of Whipple with Somerset. Revenue for performance of these attestation services is included in 1997 and 1996 revenue, with no such revenue in 1998. The Company has recently implemented strategies to expand the range of consulting services it offers and to increase revenue. These include a group purchasing service for medical practices and expansion of investment and wealth management services.

Commission revenue from the sale of insurance and investment products for 1998 declined $143,000, or 13% compared to 1997, and were 6% below 1996. The decline is attributed to several factors including an interest rate environment that caused downward pressure on sales of fixed rate annuities, the division's primary product. During 1998, the division made significant progress in expanding its sales focus into other investment products such as variable annuities, mutual funds, stocks, and fixed income securities. While sales of these products assisted in maintaining a reasonable level of product sales, the commissions received for such sales are generally lower than that on fixed rate annuities. In the latter part of 1998, the division began focusing on sales to individuals outside of its alliaance with First Indiana Bank (the "Bank") in order to increase revenue while continuing to service customers of the Bank.

Investment income decreased in each of the three years primarily from a decrease in the average amount of net cash available for investments. It is anticipated that short-term investments will continue to decline in the future as cash is used to expand operations.

EQUITY IN EARNINGS OF FIRST INDIANA CORPORATION

The Company's equity in earnings of First Indiana Corporation ("First Indiana") of $4,130,000 was 6.4% above 1997 and 38% above the amount for 1996. The year ended December 31, 1996 included an industry-wide special assessment to recapitalize the Savings Association Insurance Fund. The negative effect of this assessment was $852,000 on income before income taxes. Excluding this one-time expense, equity income amounted to $3,855,000. The 1998 equity income represented a 7% increase over this $3,855,000 comparable amount. This one-time charge resulted in an ongoing reduction in deposit premiums beginning in 1997.

First Indiana posted record earnings in 1998 while sustaining substantial asset growth. Total assets increased 11.3% and amounted to $1.8 billion compared to $1.6 billion at December 31, 1997.

Loans outstanding grew 13%, to $1.5 billion at December 31, 1998 from $1.4 billion at year-end 1997. Total loan originations eclipsed all previous records, amounting to $1.5 billion, a 35% increase over 1997's record levels. The significant growth in First Indiana's loan portfolios contributed to net interest income of $62.8 million, a slight decrease from $63.0 million in 1997. The decrease arises from a compressed net interest margin due to lower loan yields in the current interest rate environment.

The increase in loans occurred in all of First Indiana's targeted portfolios. Loans to business increased 44%, construction loans grew 19%, and consumer loans grew 6% during 1998 compared with 1997.

Through the sale of residential and consumer loans in the secondary market, First Indiana earned $9.4 million before income taxes in non-interest income, a 92% increase over 1997 income of $4.9 million. Total non-interest income was $23.8 million, a 32% increase over $18 million in 1997.

First Indiana experienced a favorable trend in loan charge-offs during 1998. Net loan charge-offs were $6.5 million during 1998, compared with $7.1 million in 1997. The allowance for losses on loans and real estate owned at December 31 1998 was $26.2 million.

For a more detailed discussion of the Results of Operations of First Indiana Corporation, please refer to the Form 10-K of First Indiana Corporation, filed with the Securities and Exchange Commission under File Number 0-14354.

OPERATING EXPENSES

Operating expenses of $7,785,000 for 1998 represented a 3% increase over the $7,558,000 expended in 1997, and 21% above the same expenses in 1996. Expenses for 1998 included direct merger expenses of $163,000 that were one-time and non-recurring in nature. Excluding these expenses, operating expenses for 1998 amounted to $7,622,000, or 1% above 1997 expenses, and 19% above the 1996 expenses.

As a percentage of revenue and income, the $7,622,000 incurred in 1998 was 65% (35% margin), an improvement over the 68% ratio (32% margin) of 1997 and the 67% ratio (33% margin) in 1996. These percentages of revenue and income are indicative of operating efficiencies achieved by the merger, and we are pleased that they were achieved during the first year of merged operations.

We expect operating expenses, measured as a percentage of revenue and income, to continue to decrease in future periods. During 1998, the Company incurred general and administrative expenses and marketing expenses that were an indirect result of combining operations and should not be as high in future periods. In addition, during the fourth quarter of 1998, professional staff was added in the Somerset Financial Services division. The addition of these talented individuals with industry experience was in response to continued demands and anticipated demand dfor our investment and wealth management and specialty consulting services. However, they represent an investment for future growth and reduced earnings in the short term. Their full potential is not expected to be reflected in financial results until 1999 and beyond.

FINANCIAL CONDITION AND LIQUIDITY

The financial condition and liquidity of the Company was excellent at December 31, 1998. The Company was also in a very sound position at the end of 1997. Because of 1995 sales of all construction industry operating assets, and the Company's operating activities since 1995 providing additional positive cash flow, the Company's balance sheet contains a large percentage of liquid assets. These liquid assets are being invested temporarily and are intended for use in additional acquisitions and the expansion of existing financial service operations.

At December 31, 1998, the Company had a high ratio of current assets to current liabilities of 14.8 to one, compared to 6.7 to one at December 31, 1997. In addition, 68% of the current assets consisted of cash, cash equivalents and short-term investments. Net working capital was $5.8 million at December 31, 1998, compared to $6.3 million at the end of 1997. This decrease is primarily attributable to the use of cash to purchase additional shares of First Indiana and to retire all outstanding debt of Whipple that existed at the date of the merger. The Company had no debt at December 31, 1998. Outstanding debt at December 31, 1997 of $502,000 was retired in 1998. Shareholders' equity increased to $35,463,000 at December 31, 1998, from $33,460,000 at the end of 1997. The book value per share was $12.26 at December 31, 1998, compared to $11.55 at December 31, 1997, an increase of 6.1%.

Generally Accepted Accounting Principles ("GAAP") require the Company to record income tax expense at full corporate rates on a portion of its equity income from First Indiana. GAAP also requires us to record our investment in First Indiana at a net carrying value, which represents our acquisition cost of First Indiana shares, plus our equity share of First Indiana's net income. Under certain circumstances, the tax liability recorded in this manner (approximately $8.9 million) may not be paid. The market value of our investment in First Indiana at December 31, 1998 was approximately $55 million, or $19 million greater than the investment carrying amount reflected in our balance sheet at December 31, 1998.

Operating activities during 1998 provided $734,000 of cash, compared to $1,123,000 in 1997. The two primary causes of this decrease were an increase in trade accounts, notes and other receivables and a comparative decrease in non-cash deferred income tax expense. The increase in receivables was primarily a result of the timing of the completion of services that occurred late in 1998 and the overall increase in revenue and operating levels. The comparative lower deferred income tax expense was a result of the change of the method of filing taxes for Whipple from cash basis accounting to accrual basis accounting, which caused a reversal of taxes previously deferred at December 31, 1997.

The Company purchased 40,500 shares of First Indiana common stock at a cost of $990,000, and spent $207,000 for equipment; primarily computers and software to bring systems into readiness for the Year 2000.

The Company paid $522,000 in cash dividends to its shareholders in 1998, at an annual rate of $.18 per share, the same as the rate paid in 1997. The $.18 per share paid in 1997 represented a 12.5% increase over the dividend paid in 1996. The increase in the dollar amount of dividends paid during 1998 was caused by an increase in the number of shares outstanding, primarily as a result of the shares issued in the Whipple merger. Dividends paid during 1998 represented 71% of cash flow from operations, compared to 41% in 1997, and 28% in 1996.

In the later part of 1998, the Company repurchased 23,465 shares of its common stock, at a cost of $464,000, and reissued 6,094 shares of common stock for proceeds of $88,000. The shares were reissued pursuant to stock option grants that were exercised during the year.

Proceeds from the sale of short-term investments amounted to $1,533,000. The investments were sold to provide funding for the uses of cash previously described.

Management anticipates that expansion activities, including future purchase of property and equipment, will be funded from available cash and short-term investments. A major acquisition could require the use of bank debt and/or the issuance of additional shares of common stock.

The Company is a registered savings and loan holding company and is subject to regulations of permitted activities defined in the National Housing Act and administered by the Office of Thrift Supervision.

IMPACT OF ACCOUNTING STANDARDS NOT YET ADOPTED

During 1998, the American Institute of Certified Public Accountants issued Statement of Position 98-5 ("SOP 98-5"), Reporting on the Costs of Start-Up Activities. SOP 98-5 requires that the costs of start-up activities, including organization costs, be expensed as incurred. It further requires that any such costs capitalized in prior periods be charged to expense. SOP 98-5 is effective for financial statements for fiscal years beginning after December 15, 1998. The Company will adopt SOP 98-5 effective January 1, 1999. Concurrent with the adoption, the Company will charge $189,000 to expense that will be reported as the cumulative effect of a change in accounting principle in the first quarter of 1999.

Other pronouncements by the Financial Accounting Standards Board and the American Institute of Certified Public Accountants during 1998 have either been adopted by the Company or are not applicable to the Company's consolidated financial statements.

YEAR 2000 READINESS

The Year 2000 issue refers to shortcomings which exist in some current computer hardware and software that preclude the correct calculation of date-sensitive information from, into, and between the twentieth and twenty-first centuries, including leap year calculations. The Company is subject to regulations of two governmental agencies in connection with review of its state of readiness. The Company's operations of the First Indiana Investor Services division is subject to review by the Federal Financial Institutions Examination Council ("FFIEC") and its Somerset Financial Services division, as a Registered Investment Advisor is subject to review by the Securities and Exchange Commission ("SEC"). Both the FFIEC and the SEC require us to assess the Company's and its vendors' ability to be Year 2000 ready by June 30, 1999 for all mission critical systems.

Because the Company relies on technology for transaction processing, preparing for the Year 2000 is a critical focus of resources.

All hardware and software vendors, as well as significant other vendors, have been identified and contacted. The Company identified potential Year 2000 readiness issues and developed action plans and contingency plans for each issue. During 1998, the Company tested systems for purposes of validating Year 2000 readiness, upgraded and replaced existing hardware, software, and embedded systems, and implemented contingency plans in the event a particular vendor will not assist the company in its Year 2000 efforts. A team is monitoring significant vendor relationships to ensure that no issues arise which will cause management to doubt the ability of the vendor to be adequately prepared for the Year 2000 and thus possibly impact the Comapny's ability to conduct business beyond the century change.

The Company uses external data service bureaus for processing and reporting of some customer data. Proxy testing has been conducted on the mission critical aspects with the service bureaus.

The Company completed an upgrade of personal computer hardware during 1998, at a cost of approximately $140,000, and also completed the installation of replacement vendor supplied software at a cost of approximately $20,000.

At December 31, 1998, all computer hardware is capable of processing data in the Year 2000, and all mission critical software has been tested and determined to be Year 2000 compliant, with the exception of two software systems that are scheduled to be replaced by June 30, 1999. The cost of such upgrades is estimated to be $25,000.

Due to uncertainties associated with Year 2000 problems, the Company's contingency plan in the event that its business or operations are disrupted January 1, 2000, is to focus the resources and professional staff of Paradym Technologies, Inc. immediately on the remediation of any system failure that may have gone undetected. Paradym Technologies, Inc. is a wholly-owned subsidiary of the Company that is in the business of providing information technology services to clients of the Company.

Management sees no internal impact or risk to the Company's ability to operate in the twenty-first century, but it is not possible to assess the financial impact of lost revenue due to Year 2000 issues or future expenditures due to external factors at this time.

INFORMATION ON FORWARD-LOOKING STATEMENTS

The statements in the Annual Report that are not historical are forward-looking statements. Although the Company believes that its expectations are based upon reasonable assumptions within the bounds of its knowledge of its business, there can be no assurance that the Company's financial goals will be realized. Numerous factors may affect the Company's actual results and may cause results to differ materially from those expressed in forward-looking statements made by or on behalf of the Company.

STATEMENT OF MANAGEMENT RESPONSIBILITY

Management of The Somerset Group, Inc. has prepared and is responsible for the consolidated financial statements and for the integrity and consistency of other related information contained in the Annual Report. In the opinion of management, the consolidated financial statements, which necessarily include amounts based on management's estimates and judgments, have been prepared in conformity with generally accepted accounting principles appropriate to the circumstances.

The Company maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded, that transactions are executed in accordance with the Corporation's authorizations and policies, and that transactions are properly recorded so as to permit preparation of the consolidated financial statements that fairly present the financial position and results of operations in conformity with generally accepted accounting principles. Internal accounting controls are augmented by written policies covering standards of persnal and business conduct and an organization structure providing for division of responsibility and authority.

Management believes the system of controls has prevented any occurrences that could be material to the consolidated financial statements.

The Company engaged the firm of KPMG LLP, independent auditors, to render an opinion on the consolidated financial statements. The accountants have advised management that they were provided with access to all information and records necessary to render their opinion.

The Board of Directors exercises its responsibility for the consolidated financial statements and related information through the Audit Committee, which is composed entirely of outside directors. The Audit Committee meets regularly with management and KPMG LLP to assess the scope of the annual audit plan, to review the Annual Report and Form 10-K, including major changes in accounting policies and reporting practices, and to approve non-audit services rendered by the independent auditors.

KPMG LLP also meets with the Audit Committee, without management present, to afford the Committee the opportunity to express its opinion on the adequacy of compliance with established corporate policies and procedures and the quality of financial reporting.

February 5, 1999

s/Robert H. McKinney	s/Marni McKinney	s/Joseph M. Richter
Robert H. McKinney Chairman	Marni McKinney President and Chief Executive Officer	Joseph M. Richter Chief Financial Officer

KPMG
2400 First Indiana Plaza
135 North Pennsylvania Street
Indianapolis, IN 46204-2452

The Board of Directors and Shareholders
The Somerset Group, Inc.:

We have audited the accompanying consolidated balance sheets of The Somerset Group, Inc. and subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 1998. These consolidated financial statements are the responsibility of The Somerset Group, Inc.'s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Somerset Group, Inc. and subsidiaries at December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1998 in conformity with generally accepted accounting principles.

s/KPMG LLP

KPMG LLP

Indianapolis, Indiana
February 5, 1999

THE SOMERSET GROUP, INC. CONSOLIDATED STATEMENT

<TABLE>

<S>	<C>	<C>	<C>
	Year Ended December 31		
	1998	1997	1996
Revenue and Income:			
Fees and commissions	$7,327,000	$6,849,000	$6,075,000
Equity in earnings of First Indiana	4,130,000	3,883,000	3,003,000
Investment income	329,000	393,000	457,000
Total revenue and income	11,786,000	11,125,000	9,535,000
Operating Expenses:			
Salaries, wages, commissions and	5,849,000	5,990,000	4,861,000
General and administrative expenses	998,000	882,000	952,000
Occupancy expenses	347,000	305,000	295,000
Advertising and marketing	152,000	96,000	22,000
Depreciation and amortization	272,000	246,000	182,000
Interest expense	4,000	39,000	100,000
Merger expenses	163,000	---	---
Total operating expenses	7,785,000	7,558,000	6,412,000
Income before income taxes	4,001,000	3,567,000	3,123,000
Income tax expense	1,136,000	1,031,000	978,000
Net income	2,865,000	2,536,000	2,145,000
Income Per Share			
Basic	$.99	$.87	$.75
Diluted	$.97	$.86	$.73
Average Shares Outstanding:			
Basic	2,899,933	2,902,800	2,870,743
Diluted	2,961,835	2,957,978	2,929,489

</TABLE>

See accompanying Notes to Consolidated Financial Statements.

THE SOMERSET GROUP, INC. CONSOLIDATED BALANCE SHEETS

<TABLE>

<S>	<C>	<C>
	As of December 31,	
ASSETS	1998	1997
Cash and cash equivalents	526,000	600,000
Short-term investments	3,713,000	5,248,000
Trade accounts, notes and other receivables less Allowance for doubtful accounts	1,888,000	1,222,000
Prepaid expenses	87,000	80,000
Refundable income taxes	---	203,000
	--------	---------
Total current assets	6,214,000	7,353,000
Investments		
First Indiana Corporation (market Value of $5,169,000 and $68,515,000)	36,104,000	32,406,000
	----------	----------
Office furniture and equipment	1,169,000	1,143,000
Less accumulated depreciation	712,000	696,000
	---------	---------
	457,000	447,000
Other assets		
Notes receivable, net	240,000	580,000
Goodwill, net of accumulated amortization	1,074,000	1,133,000
Other	684,000	541,000
	---------	---------
	1,998,000	2,254,000
Total assets	44,773,000	42,460,000
	==========	==========
Liabilities and Shareholders' Equity		
Current liabilities		
Note payable - bank	---	549,000
Current portion of long-term debt	---	13,000
Trade accounts papyable	97,000	60,000
Accrued compensation	194,000	86,000
Taxes. other than income taxes	33,000	53,000
Income taxes	30,000	---
Deferred income taxes	---	327,000
Other accrued expenses	65,000	104,000
	-------	--------
Total current liabilities	419,000	1,102,000
Deferred income	---	23,000
Deferred income taxes	8,891,000	7,845,000
Long-term debt less current portion	---	30,000

Shareholders' equity		
Common stock without par value Authorized 4,000,000 shares, Issued and outstanding 2,909,214 shares	1,862,000	1,855,000
Capital in excess of stated value	3,599,000	3,549,000
Accumulated other comprehensive income (loss)	(19,000)	(22,000)
Retained Earnings	30,359,000	28,078,000
	----------	----------
	35,801,000	33,460,000
Less 17,371 Treasury shares at cost	338,000	---
	---------	---------
Total shareholders' equity	35,801,000	33,460,000
	----------	----------
Total liabilities and Shareholders' Equity	44,773,000	42,460,000
	==========	=========

</TABLE>

THE SOMERSET GROUP, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
January 1, 1996 to December 31, 1998
<TABLE>

<S>	<C>	<C>	<C>	<C>		<C>
	Common Stock	Capital in Excess of Stated Value	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Shares	Total
Balance January 1, 1996	1,829,000	3,648,000	72,000	24,210,000	$	29,759,000
Comprehensive Income:						
Net income year ended December	---	---	---	2,145,000		2,145,000
Unrealized losses on short-term						
investments net of deferred				---		---
income taxes	---	---	(72,000)			(72,000)

Total comprehensive income						2,073,000
Shares of common stock issued	17,000	292,000	---	64,000		373,000
Shares of common stock retired	(10,000)	(227,000)	---	---		(237,000)
Cash dividends paid	---	---	---	(409,000)		(409,000)
Equity in other capital changes						
of First Indiana Corporation,						
net of deferred income taxes	---	---	---	38,000		38,000
	---------	---------	-----	----------	-----	----------
Balance December 31, 1996	1,836,000	3,713,000	---	26,048,000		31,597,000
Comprehensive Income:						
Net income year ended December	---	---	---	2,536,000		2,536,000
Unlealized losses on short-term						
investments, net of deferred						
income taxes	---	---	(22,000)	---		(22,000)

Total comprehensive income						2,514,000
Shares of common stock issued	39,000	265,000	---	39,000		343,000
Shares of common stock retired	(20,000)	(429,000)	---	---		(145,000)
Cash dividends paid	---	---	---	(462,000)		(462,000)
Equity in other capital changes of						
First Indiana Corporation, net of						
deferred income taxes	---	---	---	(83,000)		(83,000)
	--------	---------	-------	----------		----------
Balance December 31, 1997	1,855,000	3,549,000	(22,000)	28,078,000		33,460,000
Comprehensive Income:						---
Net income, year ended December	---	---	---	2,865,000		2,865,000
Unrealized gain on short-term						---
investments, net of deferred						
income taxes	---	---	3,000	---		3,000
Total comprehensive income						2,868,000
Tax benefit of stock						
options exercised	---	95,000	---	---		95,000
Shares of common stock issued	7,000	(45,000)	---	---	126,000	88,000
Purchase of treasury shares	---	---	---	---	(464,000)	(464,000)
Cash dividends paid	---	---	---	(522,000)		(522,000)
Equity in other capital changes of						
First Indiana Corporation, net of						
deferred income taxes	---	---	---	(62,000)		(62,000)
	---------	---------	-------	----------	-------	----------
Balance December 31, 1998	1,862,000	3,599,000	(19,000)	30,359,000	(338,000)	35,463,000
	=========	=========	======	==========	======	==========

</TABLE>
See accompanying Notes to Consolidated Financial Statements

THE SOMERSET GROUP, INC. CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended December 31

<TABLE>

<S>	<C> 1998	<C> 1997	<C> 1996
Cash flows from operating activities:			
Net income	$2,865,000	$2,536,000	$2,145,000
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	272,000	246,000	182,000
Deferred income taxes	719,000	1,199,000	985,000
Equity in earnings of First Indiana	(4,130,000)	(3,883,000)	3,003,000
Dividends received from First Indiana	1,319,000	1,087,000	1,015,000
Other	---	---	(11,000)
Changes in operating assets and liabilities:			
Accounts, notes, and other receiva	(666,000)	171,000	779,000
Prepaid expenses	(7,000)	(18,000)	(13,000)
Accounts payable and accrued expen	86,000	(42,000)	(424,000)
Accrued and refundable income taxe	276,000	(173,000)	(173,000)
Net cash provided by operating activitie	734,000	1,123,000	7,488,000
Cash flows from investing activities:			
Purchase of shares of First Indiana	(990,000)	---	---
Proceeds from sale of assets	---	8,000	2,000
Purchase of property and equipment	(207,000)	(229,000)	(272,000)
Decrease (increase) in other assets	256,000	(3,000)	(1,097,000)
Decrease (increase) in short-term investments	1,533,000	(524,000)	2,470,000
Net cash provided (used) by investing activities	592,000	(748,000)	1,103,000
Cash flows from financing activities:			
Principal payments on note payable,	(459,000)	(225,000)	(249,000)
Principal payments on long-term bor	(43,000)	(12,000)	(2,445,000)
Proceeds from sale of common stock	88,000	330,000	164,000
Purchase of common stock	(464,000)	(475,000)	(298,000)
Cash dividends paid	(522,000)	(462,000)	(409,000)
Net cash used by financing activities	(1,400,000)	(844,000)	(3,237,000)
Decrease in cash and cash equivalents	(74,000)	(469,000)	(652,000)
Cash and equivalents at beginning of period	600,000	1,069,000	1,721,000

Cash and cash equivalents at end of period	$526,000	$600,000	$1,069,000

</TABLE>

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Nature of Operations and Summary of Significant Accounting Policies

The Somerset Group, Inc. (The "Company" or "Somerset") is a nondiversified, unitary savings and loan holding company. Its major asset at December 31, 1998 is a 21.7% ownership interest in First Indiana Corporation ("First Indiana"), which owns 100% of First Indiana Bank (the "Bank"). The Company operates First Indiana Investor Services, which markets insurance and investment products primarily to Bank customers.

As a result of a merger on January 20, 1998 with Whipple & Company P.C. ("Whipple"), a division of the Company, Somerset Financial Services, provides tax, accounting, health care consulting, investment and wealth management, and management consulting services. On January 5, 1999, a subsidiary of the Company, Paradym Technologies, Inc., purchased the assets and business of two companies and will provide information technology consulting, including corporate Internet, networking, surveillance, and wiring services.

(a) Basis of Financial Statement Presentation: The consolidated financial statements include the accounts of the Company and its 100% owned subsidiaries. The consolidated financial statements have been prepared in conformity with GAAP. The merger with Whipple was accounted for as a pooling-of-interests combination and, accordingly, Somerset's historical consolidated financial statements have been restated to include the accounts and results of Whipple. (See Note 2.) In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ significantly from those estimates.

(b) Fees and Commissions: Fees and commissions represent revenue from financial services provided to clients and from the sale of insurance and investment products.

(c) Cash and Cash Equivalents: For purposes of reporting cash flows, cash and cash equivalents include cash on hand, cash in banks, and money market funds immediately available.

(d) Short Term Investments: The investments are valued at fair value on the statement date. They are available-for-sale and proceeds are available on three days' notice. Unrealized holding gains and losses are excluded from earnings and are reported net of deferred income taxes as accumulated other comprehensive income.

(e) Investment in First Indiana Corporation: First Indiana Corporation is a nondiversified unitary savings and loan holding company whose primary subsidiary is a federally chartered stock savings bank. It operates retail banking and mortgage and consumer loan offices throughout Indiana and mortgage and consumer loan offices in seven other states. Somerset's investment in First Indiana Corporation is stated at cost, adjusted for its share of undistributed earnings, and includes adjustments under the purchase method of accounting. Capital changes of First Indiana Corporation are reflected as a separate component of consolidated retained earnings.

(f) Office Furniture and Equipment: Office furniture and equipment are stated at historical cost for financial reporting purposes. Depreciation is determined using the straight-line method based upon the estimated useful lives of the individual assets. Both straight-line and accelerated methods are used for income tax purposes.

(g) Employee Benefit Plans: Prior to the merger with Whipple, Somerset maintained a Salary Reduction Simplified Employee Pension Plan (SAR-SEP), and Whipple maintained a Profit Sharing Retirement Plan. The SAR-SEP was qualified for income tax deferral under Internal Revenue Service Code Section 408(k), and the Profit Sharing Retirement Plan was qualified under Internal Revenue Service Code Section 401(k). The Somerset SAR-SEP was terminated in 1998, and the Company adopted the Whipple Profit Sharing Retirement Plan for all employees.

(h) Income Taxes: The Company uses the asset and liability method to account for income taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their tax basis. The principal temporary difference between the financial statement carrying amounts and the tax basis that result in deferred taxes is the investment in First Indiana, accounted for under the equity method of accounting. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the effective date.

(i) Earnings Per Share: Basic earnings per share for 1998, 1997, and 1996 were computed by dividing net income by the weighted average shares of common stock outstanding (2,899,933, 2,902,800, and 2,870,743 in 1998, 1997, and 1996 respectively). Diluted earnings per share for 1998, 1997, and 1996 were computed by dividing net earnings by the weighted average shares of common stock and common stock that would have been outstanding assuming the issuance of all potential dilutive shares outstanding (2,961,835, 2,957,978, and 2,929,489 in 1998, 1997, and 1996 respectively). Dilution of the per-share calculation relates to stock options. All share and per-share amounts have been adjusted for five-for-four stock splits that were effective February 26, 1997 and February 29, 1996.

(j) Treasury Shares: Treasury shares issued were valued at average cost of all treasury shares at the date of issuance.

(k) Comprehensive Income: The Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard No. 130, "Reporting Comprehensive Income" ("FAS 130"), which established standards for reporting and displaying comprehensive income and its components in the consolidated financial statements. Comprehensive income is the total of all net income and all non-owner changes in equity. The Company adopted FAS 130 as of January 1, 1998, it was retroactively applied to December 31, 1996, and the statement had no impact on the financial condition or results of operations.

(l) Segments of an Enterprise: The FASB also issued Statement of Financial Accounting Standard No. 131, "Disclosures About Segments of an Enterprise and Related Information" ("FAS 131"), which introduced new guidelines on segment reporting. The Company adopted FAS 131 as of January 1, 1998 and has presented the applicable disclosures for 1996, 1997, and 1998. (See Note 10.)

Note 2. Business Combinations

Whipple and Company Professional Corporation

On January 20, 1998, Somerset issued 333,339 shares of its common stock for all the outstanding common stock of Whipple, a provider of financial and accounting services that include tax planning and preparation, accounting, health care consulting, information technology, investment management, and management consulting services. Shares of Whipple were not publicly traded. This business combination has been accounted for as a pooling-of-interests combination and, accordingly, the consolidated financial statements for periods prior to the combination have been restated to include the accounts and results of operations of Whipple.

The results of operations previously reported by the separate enterprises and the combined amounts presented in the accompanying consolidated financial statements are summarized below.

Years Ended December 31,

<TABLE>
<S> <C> <C>

	1997	1996
Revenue and income:		
Somerset	$5,385,000	$4,449,000
Whipple	5,740,000	5,086,000
	----------	---------
Combined	$11,125,000	$9,535,000
	==========	=========
Operating expenses:		
Somerset	$1,978,000	$1,524,000
Whipple	5,580,000	4,888,000
	----------	---------
Combined	$7,558,000	$6,412,000
	=========	=========
Net income:		
Somerset	$2,450,000	$2,039,000
Whipple	86,000	106,000
	---------	---------
Combined	$2,536,000	$2,145,000
	=========	=========

</TABLE>

The 333,359 shares issued by Somerset in the transaction consisted of 293,833 shares as treasury shares and 39,506 previously unissued shares. There were no transactions between Somerset and Whipple prior to the combination.

Paradym Technologies, Inc.

On January 4, 1999, a 100% owned subsidiary of Somerset purchased the assets of two companies and commenced operations as Paradym Technologies, Inc. ("Paradym"). Paradym will provide information technology consulting services, including corporate Internet, networking, and video surveillance and wiring services. The total cost of the assets purchased was $315,000.

Note 3. Short Term Investments

Short-term investments are stated at fair value and are available-for-sale. The Company is actively seeking additional businesses in the financial services industry and expects to utilize these funds for that purpose. The investments at December 31, 1998 and 1997 consisted of the following:

<TABLE>
<S> <C> <C> <C> <C>

December 31, 1998	Costs	Unrealized Gains	Unrealized Losses	Fair Value
Bond Mutual Funds	$2,059,000	$1,000	$(43,000)	$2,017,000
Government Agency Mortgage Securities	830,000	4,000	---	834,000
Collateralized Mortgage Securities	674,000	3,000	---	677,000
Money Market Funds, Pending Investment	185,000	---	---	185,000
	---------	------	-------	---------
	$3,748,000	$8,000	$(43,000)	$3,713,000
	=========	=====	=======	=========
December 31, 1997				
Bond Mutual Funds	$2,480,000	$5,000	$(41,000)	$2,444,000

Government Agency Securities	200,000	---	---	200,000
Government Agency Mortgage Securities	922,000	3,000	---	925,000
Collateralized Mortgage Securities	1,080,000	4,000	---	1,084,000
Money Market Funds, Pending Investment	595,000	---	---	595,000
	$5,277,000	$12,000	$(41,000)	$5,248,000

</TABLE>

Note 4. Allowances for Doubtful Accounts

Trade accounts, notes and other receivables are net of allowances for doubtful accounts of $108,000 and $100,000 at December 31, 1998 and 1997, respectively. Activity concerning the allowances for doubtful accounts for the three years ended December 31, 1998 was as follows:

	Year Ended December 31,		
	1998	1997	1996
Balance at beginning of period	$153,000	$118,000	$123,000
Additions charged to costs and expenses	10,000	149,000	70,000
Uncollectible accounts written off, net of recoveries	(25,000)	(114,000)	(75,000)
Balance at end of period	$138,000	$153,000	$118,000
Amount classified as a reduction of trade accounts, notes, and other receivables	$138,000	$53,000	$118,000
Amount classified as a reduction of other assets, notes receivable	---	100,000	---
	138,000	$153,000	$118,000

Note 5. Investment in First Indiana Corporation

The Company?s percentage ownership in First Indiana was as follows:
(Shares adjusted for First Indiana?s stock splits.)

As of:	Shares Owned	First Indiana Shares Outstanding	Percentage Ownership
December 31, 1998	2,758,467	12,703,294	21.7%
December 31, 1997	2,717,967	12,668,191	21.5%
December 31, 1996	2,717,967	12,455,122	21.8%

The Company's equity in earnings of First Indiana was as follows:

	Year Ended December 31,		
	1998	1997	1996
Equity in earnings of First Indiana based on percentage of ownership	$4,122,000	$3,815,000	2,886,000
Equity in First Indiana's gain on sale of subsidiary sold to the Company, contained in equity in earnings	---	(15,000)	(147,000)
Purchase price adjustments: The Company?s equity ownership of First Indiana?s net assets exceeded the actual cost of its shares. Under the purchase accounting method, these purchase price adjustments are being amortized to income using both the declining balance and straight line methods and amortization periods of 3 to 25 years	8,000	83,000	264,000
Total equity in earnings	130,000	$3,883,000	$3,003,000

At December 31, 1998, the actual cost of the Company's shares exceeded its equity ownership of First Indiana's net assets. In future periods these aggregate purchase price adjustments will be amortized to expense using the straight-line method over 3 to 25 years. At December 31, 1998, the unamortized balance of the purchase price adjustments to be charged against equity in earnings was $62,000.

The changes in retained earnings for equity in other capital changes of First Indiana primarily represents changes in the Company's percentage share of First Indiana's net worth resulting from changes in the number of First Indiana shares outstanding or the number of shares owned by the Company. Such capital changes also represent changes in First Indiana's unrealized gain or loss on investments and other changes reflected in First Indiana's retained earnings.

The Company's equity in undistributed earnings (equity earnings not received as dividends) and capital changes of First Indiana, included in consolidated retained earnings at December 31, 1998 and 1997 were $21,829,000 and $19,128,000, respectively.

Equity in earnings of First Indiana for the year ended December 31, 1996 were reduced by an FDIC special assessment. The $852,000 assessment represents the Company's equity in the net earnings effect of the total assessment paid by First Indiana. The one-time charge was the result of a special assessment by the FDIC imposed on all banks, including First Indiana Bank, whose customers' deposits are insured by its Savings Association Insurance Fund.

First Indiana is not subject to any regulatory restrictions on the payment of dividends to its stockholders. However, the Office of Thrift Supervision has promulgated regulations governing dividend payments, stock redemptions, and other capital distributions, including up streaming of dividends by a savings institution to a holding company. Under these regulations, the Bank may make distributions to First Indiana of up to 100 percent of the Bank?s net earnings over the most recent four-quarter period, less distributions made during such four-quarter period. The Bank is required to give the Office of Thrift Supervision 30 days advance notice before declaring a dividend.

Note 6. Other Assets

Notes receivable consisted of the following:

	December 31, 1998	1997
Long-term note receivable in connection with the sale of construction assets	$240,000	$270,000
Long-term note receivable in connection with the sale of discontinued radio broadcasting properties	---	410,000
Less allowance for doubtful accounts	---	(100,000)
	$240,000	$580,000

Goodwill is stated net of accumulated amortization. The amounts represents cost of assets purchased, paid to the Bank, in excess of their market value, and includes consideration paid for an exclusive operating agreement for marketing and sales of non-FDIC-insured insurance and investment products to customers of the Bank.

Amounts paid are being amortized to expense over 15 years and consisted of the following:

	December 31, 1998	1997
Original amount paid	$1,188,000	$1,188,000
Additional purchase price paid under an agreement for payment if profits exceeded pre-determined amounts	101,000	74,000
	1,289,000	1,262,000
Less accumulated amortization	(215,000)	(129,000)
	$1,074,000	$1,133,000

Other assets consisted of the following:

	December 31, 1998	1997
Investment in split-dollar life insurance	$495,000	$460,000
Organizational costs	189,000	81,000
	$684,000	$541,000

The investment in split-dollar life insurance consists of contracts for a key officer of the Company and is secured by cash value of the contracts and a contractual guarantee of yield.

Organizational costs were incurred in connection with the start-up of specialty consulting services offered by the Company and Whipple. The Company adopted the American Institute of Certified Public Accountants ("AICPA") Statement of Position No. 98-5, Reporting on the Costs of Start-Up Activities, effective January 1, 1999. Concurrent with this adoption, the $189,000 will be charged to expense as a change in accounting method and will be reported in the 1999 first quarter results.

Note 7. Financial Instruments

The estimated fair value of the Company?s financial instruments at December 31, 1998 and 1997 approximate their carrying value as reflected in the consolidated balance sheets. The Company?s financial instruments include cash and cash equivalents, short-term investments, and notes receivable. Financial instruments also include the investment in First Indiana that had a fair value of $55,169,000 and $68,515,000 at December 31, 1998 and 1997.

Note 8. Income Taxes

Income tax expense (benefit) attributable to income from operations consisted of:

	Year Ended December 31, 1998	1997	1996
Current:			
Federal	$321,000	$(147,000)	$(24,000)
State and local	58,000	(20,000)	(4,000)
	379,000	(167,000)	(28,000)
Deferred:			

Federal	659,000	1,033,000	863,000
State and local	98,000	165,000	143,000
	757,000	1,198,000	1,006,000
Total:			
Federa	980,000	886,000	838,000
State and local	156,000	145,000	140,000
Total income tax expense on income from operations	$1,136,000	1,031,000	978,000

Income tax expense attributable to income from operations differed from the amounts computed by applying the federal income tax rate of 34% to pretax income from operations as a result of the following:

	Year Ended December 31, 1998	1997	1996
Federal income tax at statutory rate of 34%	1,360,000	1,213,000	$1,062,000
Add tax effect of:			
State and local income taxes, net of federal income tax benefit	106,000	132,000	192,000
Dividends received deduction (First Indiana)	(259,000)	(296,000)	(276,000)
Other	29,000	(18,000)	---
	$1,136,000	1,031,000	$978,000

The tax effects of temporary differences that give rise to significant portions of the net deferred tax liability at December 31, 1998 and 1997 consist of:

	December 31, 1998	1997
Deferred tax assets:		
Allowance for doubtful accounts	$53,000	$42,000
Unrealized investment losses	12,000	14,000
Accrued liabilities	7,000	28,000
Total deferred tax assets	$ 72,000	$84,000
Deferred tax liabilities:		
Investment in First Indiana	$8,951,000	$7,895,000
Office furniture and equipment	12,000	15,000
Cash basis tax accounting versus accrual basis	---	327,000
Total net deferred tax liabilities	$8,963,000	$8,256,000
Net deferred tax liability	$8,891,000	$8,172,000
Amount classified as current	$ ---	$327,000
Amount classified as long-term	8,891,000	7,845,000
	$8,891,000	$8,172,000

The Company made income tax payments of $61,000 during the year ended December 31, 1998, received income tax refunds of $125,000 during the year ended December 31, 1997, and made income tax payments of $235,000 during the year ended December 31, 1996.

Note 9. Interim Quarterly Results (Unaudited)
(Dollars in thousands except per share data)

1998	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Annual
Commissions, fees and investment income	$2,587	$1,720	$1,673	$1,676	$7,656
Equity in earnings of First Indiana	950	997	1,081	1,102	4,130
Operating expenses	(2,045)	(1,949)	(1,888)	(1,903)	(7,785)
Income before taxes	1,492	768	866	875	4,001
Net income	$1,012	$570	$628	$655	$2,865
Income per share - basic	$.35	$.20	$.22	$.23	$ .99
Income per share -diluted	$.34	$.19	$.21	$.22	$.97

1997					
Commissions, fees and investment income	$2,634	$1,611	$1,432	$1,565	$7,242
Equity in earnings of First Indiana	871	846	998	1,168	3,883
Operating expenses	(2,227)	(2,203)	(1,548)	(1,580)	(7,558)
Income before taxes	1,278	254	882	1,153	3,567
Net income	$ 863	$ 239	$ 620	$ 814	$2,536
Income per share - basic	$ .30	$ .08	$ .21	$ .28	$ .87

Income per share -diluted	$ .29	$ .08	$ .21	$ .28	$ .86

Revenue and income from financial services is cyclical in nature as a result of the timing of income tax planning and preparation services performed by the Company. Because of government imposed filing deadlines, a larger percentage of these services occur during the first four months of each calendar year. Revenue and income during the first quarter of each year will be favorably affected, as compared to the remaining three-quarters of the year.

Note 10. Segment Reporting

Somerset's business units are organized to operate in the financial services industry and as a holding company for its investment in First Indiana. There are three operating and reporting units organized on the basis of the type and source of their revenue and income.

The Somerset Group Management Division.
This division manages all investment and treasury functions of the Company, including overseeing its investment in First Indiana. It also sets policy guidelines for the other operating divisions. Revenue and income is derived from the Company's investment in First Indiana and from investment and loan portfolios.

Somerset Financial Services Division
Services provided to the general public by Somerset Financial Services include tax planning and preparation, health care consulting, information technology, investment and wealth management, and management consulting services for entrepreneurs, their businesses, families, and individuals.. Revenue and income for services is on a fee basis only; as an hourly fee or a quoted flat fee. No products are sold and no remuneration is received as an agent for any other business or organization.

First Indiana Investor Services Division
This division markets investment and insurance products primarily within the branch bank system of First Indiana and to a lesser degree to the general public. The primary investment products include variable annuities, mutual funds, and stocks and bonds. The primary insurance products include fixed annuities, life insurance, and property and casualty insurance. Revenue and income received is generated solely from commissions received on products sold, as an agent for insurance companies or through a contractual arrangement with a registered investment broker/dealer.

There were no inter-segment sales and no foreign operations.

Note 10 Segment Reporting (Continued)

The segment financial information provided below is based on the internal management reporting system used by the Company's management to monitor and manage the financial performance of the Company. The Company evaluates segement performance based on the return on beginning equity employed, and the return on revenue.

Year Ended December 31,1998	Somerset Group Management Division	Somerset Financial Services Division	First Indiana Investor Services Division	Consolidated
Beginning equity employed	$31,421,000	$824,000	$1,215,000	$33,460,000
Assets	$41,208,000	$2,217,000	$1,348,000	$44,773,000
Revenue and income:				
Fee based revenue - (external customers)	$0	$6,386,000	$0	$6,386,000
Commission revenue - (external customers)	0	0	941,000	941,000
Total fees and commissions				7,327,000
Equity earnings from First Indiana Corporation	4,130,000	0	0	4,130,000
Investment income - (external sources)	329,000	0	0	329,000
Total revenue and income	4,459,000	6,386,000	941,000	11,786,000
Expenses:				
Salaries, wages, commissions and benefits	503,000	4,802,000	544,000	5,849,000
General and administrative expenses	172,000	684,000	142,000	998,000
Occupancy expenses	25,000	303,000	19,000	347,000
Advertising and marketing	12,000	130,000	10,000	152,000
Depreciation and amortization	19,000	143,000	110,000	272,000
Interest expense	0	4,000	0	4,000
Merger expenses (1)	95,000	68,000	0	163,000
Total expenses	826,000	6,134,000	825,000	7,785,000
Income before income taxes	3,633,000	252,000	116,000	4,001,000
Income tax expense:				
Current provision (benefit)	(87,000)	423,000	43,000	379,000
Deferred provision (2)	1,083,000	(327,000)	1,000	757,000

	996,000	96,000	44,000	1,136,000
Net income	$2,637,000	$156,000	$72,000	$2,865,000

(1) Unusual non-recurring expenses
(2) A significant non-cash expense

Year Ended December 31, 1997	Somerset Division	Somerset Group Management Division	First Indiana Financial Services Investor Services Division	Consolidated
Beginning equity employed	$29,592,000	$761,000	$1,244,000	31,597,000
Assets	39,628,000	1,487,000	1,345,000	42,460,000
Revenue and income:				
Fee based revenue - (external customers)	0	5,765,000	0	5,765,000
Commission revenue - (external customers)	0	0	1,084,000	1,084,000
Total fees and commissions				6,849,000
Equity earnings from First Indiana Corporation	3,883,000	0	0	3,883,000
Investment income - (external sources)	369,000	24,000	0	393,000
Total revenue and income	4,252,000	5,789,000	1,084,000	11,125,000
Expenses:				
Salaries, wages, commissions and benefits	756,000	4,788,000	446,000	5,990,000
General and administrative expenses	133,000	541,000	208,000	882,000
Occupancy expenses	23,000	264,000	18,000	305,000
Advertising and marketing	6,000	78,000	12,000	96,000
Depreciation and amortization	19,000	127,000	100,000	246,000
Interest expense	0	39,000	0	39,000
Total expenses	937,000	5,837,000	784,000	7,558,000
Income before income taxes	3,315,000	(48,000)	300,000	3,567,000
Income tax expense:				
Current provision (benefit)	(142,000)	(131,000)	106,000	(167,000)
Deferred provision (2)	1,069,000	126,000	3,000	1,198,000
	927,000	(5,000)	109,000	1,031,000
Net income	$2,388,000	($43,000)	191,000	$2,536,000

Year Ending December 31, 1996				
Beginning equity employed	$28,132,000	$261,000	1,105,000	29,498,000
Assets	$36,742,000	1,509,000	1,467,000	39,718,000
Revenue and income:				
Fee based revenue - (external customers)	0	5,069,000	0	5,069,000
Commission revenue (external customers)	0	0	1,006,000	1,006,000
Total fees and commissions				6,075,000
Equity earnings from First Indiana Corporation	3,003,000	0	0	3,003,000
Investment income - (external sources)	441,000	16,000	0	457,000
Total revenue and income	3,444,000	5,085,000	1,006,000	9,535,000
Expenses:				
Salaries, wages commissions and benefits	593,000	3,908,000	360,000	4,861,000
General and administrative expenses	217,000	548,000	187,000	952,000
Occupancy expenses	28,000	259,000	8,000	295,000
Advertising and marketing	7,000	0	15,000	22,000
Depreciation and amortization	13,000	115,000	54,000	182,000
Interest expense	42,000	58,000	0	100,000
Total expenses	900,000	4,888,000	624,000	6,412,000
Income before income taxes	2,544,000	197,000	382,000	3,123,000
Income tax expense:				
Current provision (benefit)	(175,000)	2,000	145,000	28,000)
Deferred provision (2)	915,000	89,000	2,000	1,006,000
	740,000	91,000	147,000	978,000

Net income	$1,804,000	$106,000	$235,000	$2,145,000
	=========	=======	=======	=========

(2) A significant non-cash expense

Note 11. Stock-Based Compensation

The Company has two types of stock-based compensation plans: stock options and stock grants, as described below. The Company has applied APB Opinion No. 25, ?Accounting for Stock Issued to Employees,? and related interpretations in accounting for its stock options. Accordingly, no compensation cost has been recognized for such stock options. Compensation cost for stock grants issued has been charged against income and includes reimbursement to the grantee of personal income taxes incurred. The amounts charged for the stock grants and taxes were $31,000, $395,000, and $270,000 in 1998, 1997, and 1996.

Had compensation cost for the stock options granted in 1998, 1997, and 1996 been determined based on the fair value at the grant date consistent with the methods of FASB Statement No. 123, ?Accounting for Stock-Based Compensation,? the Company?s net income and earnings per share would have been reduced as shown in the pro forma amounts as follows:

	Year Ended December 31,		
	1998	1997	1996
Net Income:			
As reported	$2,865,000	$2,536,000	$2,145,000
Pro forma	$2,336,000	$2,451,000	$2,078,000
Basic earnings per share:			
As reported	$.99	$.87	$.75
Pro forma	$.81	$.84	$.72
Diluted earnings per shares:			
As reported	$.97	$.86	$.73
Pro forma	$.79	$.83	$.71

The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option-pricing model with weighted-average assumptions as follows:

Year grants issued	1998	1997	1996
Dividend yield	1.20%	1.15%	1.5%
Expected volatility	59%	47%	24%
Risk-free interest rate	5.43%	6.11%	5.55%
Expected option life	5 yrs.	5 yrs.	7 yrs.

The effects of applying FASB Statement No. 123 in the above pro forma are not indicative of future amounts. The Company expects that grants will be made in the future.

Stock Options

The Company's 1991 and 1998 Stock Incentive Plans provide for granting of qualified and non-qualified stock options to officers and other key employees at the quoted market value of the Company's common stock on the date of the grant. The two plans are essentially identical. Qualified options are exercisable during either a period of two to five years or a period of three to five years after the date of grant, and expire five years from the date of the grant. Non-qualified options are exercisable during a period of six months to ten years after the date of the grant and expire ten years from the date of the grant. The 1991 Plan authorized 156,250 shares for granting options, and the 1998 Plan authorized 145,000 shares, with or without stock appreciation rights.

The Company also maintains a 1991 Director Stock Option Plan, which authorized 78,125 shares. The plan provides for the granting of stock options to non-employee directors of the Company. Grants issued are non-qualified stock options, which do not afford favorable tax treatment to recipients and which normally result in tax deductions to the Company. Options are granted annually at the time of the annual meeting of the shareholders, at the quoted market price on that date. The plan allows no more than the grant of 15,625 shares annually. Director options have a term of five years and are exercisable during the second through fifth years.

The following summary reflects changes in the options outstanding during the three years ended December 31, 1998.

	Officers' and Key Employees' Plan	Directors' Plan	Weighted Average Price Per Share
Balance at January 1, 1996	103,594	31,250	$6.26
Options granted	28,125	7,812	8.92
Options exercised	(10,000)	(12,500)	4.86
	-------	- -----	
Balance at December 31, 1996	121,719	26,562	7.82
Options granted	23,879	9,387	16.30
Options expired	---	(1,563)	(12.80)
Options exercised	(35,468)	(4,689)	(6.33)
	------	------	

Balance at December 31, 1997	110,130	29,697	10.21
Options granted	62,063	9,378	23.98
Options exercised	(13,595)	(4,689)	4.81
Balance at December 31, 1998	158,598	34,386	15.33

Outstanding option shares at December 31, 1998, by exercise price per share, were as follows:

Price Per Share	Officers' and Key Employees' Plans	Directors' Plan
$4.00	4,688	---
4.16	5,469	---
5.84	10,938	---
7.60	---	4,689
8.32	12,501	---
8.48	12,501	4,689
11.20	17,188	---
12.32	9,375	---
12.80	---	6,252
15.50	---	9,378
15.80	*11,375	---
17.38	*12,500	---
23.625	*54,063	---
24.25	---	*9,378
25.99	*8,000	---
	158,598	34,386

*Options not exercisable at December 31, 1998; 85,938 option shares issued to Officers and Key Employees, and 9,378 option shares issued to Directors. All other options were exercisable.

Stock Grants

The Company's 1991 and 1998 Stock Incentive Plans also provide for the issuance of stock grants to key individuals for achievement of specific results over a three-year period. On April 1, 1994, the Company awarded 15,625 shares of stock to each of two executive officers. These shares were subject to recall by the Company in the event that certain specific employment and performance objectives were not met by March 31, 1997. Such objectives were met and the shares were vested with the two executive officers. The Company does not have any stock grants outstanding at December 31, 1998.

Reserved for future stock options and stock grants at December 31, 1998 were 127,000 shares under the Officers and Key Employees' Plans and 20,307 shares under the Directors' Stock Option Plan.

Note 12. Retirement Plans

The Company adopted a new retirement plan for all employees during 1996. The plan is a SAR-SEP and is qualified for income tax deferral under Internal Revenue Service Code Section 408(k). Under the plan, employee contributions and employer matching contributions are deferred for income tax purposes. All amounts are contributed to trusteed Individual Retirement Accounts established by the participants.

The Company made matching SAR-SEP contributions for participants of 100% of each employee's contributions, to a maximum of 6% of salary. The costs of such matching contributions were $52,000, $53,000, and $34,000 during the years ended December 31, 1998, 1997, and 1996, respectively.

The SAR-SEP was terminated in 1998, following the merger with Whipple, and all employees became participants in a plan maintained by Whipple for the benefit of its employees.

The Whipple Plan adopted by the Company is a Profit Sharing Plan qualified for tax-deferred employee and employer contributions under Internal Revenue Code Section 401(k). Profit sharing contributions made to the plan for all plan participants were $126,000, $129,000, and $85,000 during the years ended December 31, 1998, 1997, and 1996, respectively.

Note 13. Commitments and Contingencies

The Company, in the normal course of business, is involved in various claims and contingencies. After taking into consideration legal counsel's evaluation and the extent of insurance coverage, management is of the opinion that the outcome of claims and contingencies will not result in any ultimate liability material to the consolidated financial statements.

Note 14. Summarized Financial Statements for First Indiana Corporation

Summarized consolidated financial information is presented below and on the following two pages for First Indiana. This 21.7 percent-owned subsidiary represents a significant part of the Company's income and financial strength. Summary discussions of the operating and financial results for First Indiana Corporation appear in the Management's Discussion and Analysis section of the report. A complete 1998 annual report for First Indiana is available upon request.

(Dollars in Thousands)

	1998	1997
Assets		
Cash and cash equivalents	$57,653	$50,231
Investments	113,291	111,400
Mortgage-backed securities - net	29,680	38,279
Loans receivable - net	1,518,543	1,348,529
Premises and equipment	18,546	13,947
Accrued interest receivable	11,680	11,322
Real estate owned	2,204	3,907
Prepaid expenses and other assets	44,393	35,790
Total Assets	$1,795,990	$1,613,405
Liabilities and Shareholders's Equity Liabilities		
Deposits	$1,227,918	$1,107,555
Federal Home Loan Bank Advances	327,247	257,458
Short-term borrowings	54,219	75,751
Accrued interest payable	2,646	2,715
Advances by borrowers for taxes and insurance	1,958	1,419
Other liabilities	12,242	10,733
Total Liabilities	1,626,230	1,455,631
Negative Goodwill	3,790	4,738
Shareholders' Equity	165,970	153,036
Total Liabilities and Shareholders' Equity	$1,795,990	$1,613,405

FIRST INDIANA CORPORATION

(Dollars in thousands)

	1998	1997	1996
Interest Income	$135,834	$127,330	$125,468
Interest Expense			
Deposits	54,935	49,936	52,077
FHLB Advances	15,348	12,288	10,706
Short-term borrowings	2,797	2,127	1,002
Total Interest Expense	73,080	64,351	63,785
Net Interest Income	62,754	62,979	61,683
Provision for Loan Losses	9,780	10,700	10,794
Net Interest Income After Provision for Loan Losses	52,974	52,279	50,889
Non-Interest Income			
Sale of loans	9,418	4,932	3,075
Loan servicing income	1,635	2,767	2,908

Loan fees	3,092	2,358	2,302
Dividends on FHLB Stock	1,097	1,055	1,033
Other	8,531	6,893	8,530
Total Non-Interest Income	23,773	18,005	17,848
Non-Interest Expense			
Salary and benefits	22,701	19,916	18,094
Net occupancy	2,893	2,852	3,087
Deposit insurance	691	693	9,186
Real estate owned operations - net	858	652	598
Other	18,613	16,991	16,288
Total Non-Interest Expense	45,756	41,104	47,253
Earnings Before Income Taxes	30,991	29,180	21,484
Income Taxes	11,844	11,436	7,780
Net Earnings	$19,147	$17,744	$13,704

FIRST INDIANA CORPORATION

(Dollars in Thousands)

	1998	1997	1996
Cash Flows from Operating Activities			
Net Earnings	$19,147	17,744	$13,704
Adjustments to Reconcile Net Earnings to Net Cash Provided (Used) by Operating Activities			
(Gain) Loss on sales of assets and deposits	(10,181)	(5,148)	(4,524)
Amortization	2,368	864	1,325
Depreciation	2,211	2,022	1,958
Provision for loan losses	9,780	10,700	10,794
Net sale of loans held for resale	(31,944)	(28,700)	32,585
Net change in other assets and liabilities	(17,765)	(6,197)	(3,265)
Net Cash Provided(Used)by Operating Activity	(26,384)	(8,715)	52,577
Cash Flows from Investing Activities			
Proceeds - sales of investments available for sale	20,399	14,991	35,703
Proceeds-sales of investment securities	23,483	---	---
Proceeds-maturities of investment securities	25,855	20,932	27,611
Purchase of investment securities	(47,375)	(39,912)	(68,225)
Origination of loans and mortgage-backed securities - net of collections	(125,399)	(117,069)	(27,964)
Proceeds - sale of indirect installment portfolio	---	---	32,756
Proceeds from sale of loans	9,567	5,274	3,501
Purchase of premises and equipment	(6,810)	(2,291)	(2,653)
Other - net	(28,333)	7,555	150
Net Cash Provided (Used) by Investing Activities	(128,613)	(110,520)	879
Cash Flows from Financing Activities			
Net change in deposits	120,363	12,069	(41,494)
Net change in short-term borrowings	(21,532)	45,698	(8,587)
Net change in FHLB Advances	69,789	41,992	685
Purchase of treasury stock	(2,242)	(132)	---
Dividends paid	(6,125)	(5,065)	(4,644)
Other - net	2,166	1,286	(692)
Net Cash Provided (Used) by Financing Activities	162,419	95,848	(54,732)
Increase(Decrease)in Cash and Cash Equivalent	$7,422	$(23,387)	$(1,276)

Part IV - Item 14(b) - Reports on Form 8-K
The Registrant filed one form 8-K during 1998. The report was filed on January 26, 1998, pursuant to Section 13 or 15 (d) of the Securities Act of 1939, Item 2 of the regulations - Acquisition or Disposition of Assets, reporting the execution of the final merger agreement and the merger with Whipple & Company, P.C.

This Form 8-K is incorporated into this Form 10-K by reference to file number 0-14227 for such Form 8-K filings with the Commission.

EXHIBIT 3

THE SOMERSET GROUP, INC.
FORM 10-K ANNUAL REPORT
Year Ended December 31, 1998

Amended Articles of Incorporation and Amended and Restated Bylaws Thereto

Amended Articles of Incorporation
One amendment to the Articles of Incorporation was made on April 23, 1998. The exact text of Article III, Section 3.01 of the Articles of Incorporation is now as follows:

Section 3.01. Amount. The total number of shares of all classes of stock which this corporation shall have authority to issue is six million (6,000,000), all of which shall be common stock, without par value.

The Articles of Incorporation before the above amendment are incorporated by referenced to Exhibit 3 of Form 10K annual report of the Registrant filed for year ended December 31, 1993, under commission file number 0-14227. No changes occurred in subsequent years, other than the above amendment.

Amended and Restated Bylaws
The amended and restated bylaws are incorporated by reference to Exhibit 3 of Form 10K annual report of the Registrant for the year ended December 31, 1997, under commission file number 0-14227. No changes occurred in the year ended December 31, 1998.

Exhibit 22

THE SOMERSET GROUP, INC.
FORM 10-K ANNUAL REPORT
Year Ended December 31, 1998

Subsidiaries of the Registrant

The following corporations are subsidiaries of the Registrant:

Percent Ownership	Name
100%	Paradym Technologies, Inc. 135 N. Pennsylvania Street Suite 2800 Indianapolis, Indiana 46204
21.7%	First Indiana Corporation 135 N. Pennsylvania Street Suite 2800 Indianapolis, Indiana 46204

Exhibit 23

THE SOMERSET GROUP, INC.
FORM 10-K ANNUAL REPORT
Year Ended 31, 1998

Definitive Proxy Statement for Annual Meeting of Shareholders - April 21, 1999

The Registrant's Notice of Annual Meeting, Proxy Statement and Form of Proxy are incorporated into this Form 10-K by reference to file number 0-14227 for such information previously filed with the Commission.

EXHIBIT 24

KPMG
2400 First Indiana Plaza
135 North Pennsylvania Street
Indianapolis, IN 46204-2452

The Board of Directors and Shareholders
The Somerset Group, Inc.:

We consent to incorporation by reference in the registration statement (No. 33-44548) on Form S-8 of The Somerset Group, Inc. of our report dated February 5, 1999, relating to the consolidated balance sheets of The Somerset Group, Inc. and subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 1998, which report appears in the December 31, 1998 annual report on Form 10-K of The Somerset Group Inc.

s/KPMG LLP

KPMG LLP

Indianapolis, Indiana
March 22, 1999

KPMG
2400 First Indiana Plaza
135 North Pennsylvania Street
Indianapolis, IN 46204-2452

The Board of Directors and Shareholders
The Somerset Group, Inc.:

We consent to incorporation by reference in the registration statement (No. 333-68391) on Form S-8 of The Somerset Group, Inc. of our report dated February 5, 1999, relating to the consolidated balance sheets of The Somerset Group, Inc. and subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 1998, which report appears in the December 31, 1998 annual report on Form 10-K of The Somerset Group Inc.

s/KPMG LLP

KPMG LLP

Indianapolis, Indiana
March 22, 1999

Exhibit 99

THE SOMERSET GROUP, INC.
FORM 10-K ANNUAL REPORT
Year Ended December 31, 1998

First Indiana Corporation Form 10-K Annual Report -
Year Ended December 31, 1998

First Indiana Corporation's Form 10-K annual report for the year ended December 31, 1998 is incorporated herein by reference to the First Indiana Corporations's Form 10-K annual report filed separately with the Commission under file number 0-14354.

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