FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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

SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended March 31, 1994

Commission File Number 0-17071

First Merchants Corporation

(Exact name of registrant as specified in its character)

Indiana	35-1544218
(State or other jurisdiction of incorporation of organization)	(I.R.S. Employer Identification No.)

200 East Jackson Street - Muncie, IN	47305-2814
(Address of principal executive office)	(Zip code)

(317) 747-1500

(Registrant's telephone number, including area code)

Not Applicable

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

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

Yes X No

As of May 5, 1994, there were outstanding 3,383,772 common shares, without par value, of the registrant.

FIRST MERCHANTS CORPORATION

FORM 10-Q

INDEX

FIRST MERCHANTS CORPORATION

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

	March 31, 1994	December 31, 1993
ASSETS:		
Cash and due from banks	$ 24,262	$ 24,942
Federal funds sold	4,350	1,625
Cash and cash equivalents	28,612	26,567
Interest-bearing time deposits	3	254
Securities available for sale	110,770	
Investment securities (market value $99,673 and $209,301)	99,294	206,243
Loans:		
Loans, net of unearned interest	376,032	376,872
Less: Allowance for loan losses	4,790	4,800
Net loans	371,242	372,072
Premises and equipment	9,272	9,441
Interest receivable	5,274	5,665
Core deposit intangibles and goodwill	2,075	2,108
Others assets	3,997	3,763
Total assets	$ 630,539	$ 626,113
LIABILITIES:		
Deposits:		
Noninterest bearing	$ 64,911	$ 74,546
Interest bearing	431,131	431,756
Total deposits	496,042	506,302
Short-term borrowings	60,843	46,890
Interest payable	1,201	1,226
Other liabilities	2,927	2,891
Total liabilities	561,013	557,309
STOCKHOLDERS' EQUITY:		
Preferred stock, no-par value: Authorized and unissued -- 500,000 shares		
Common stock, $.125 stated value: Authorized --- 20,000,000 shares Issued and outstanding -- 3,388,457 and 3,389,591 shares	423	424
Additional paid-in capital	17,033	17,068
Retained earnings	52,711	51,312
Net unearned holding losses on securities available for sale, net of taxes	(641)	
Total stockholders' equity	69,526	68,804
Total liability and stockholders' equity	$ 630,539	$ 626,113

See notes to consolidated condensed financial statements.

FIRST MERCHANTS CORPORATION

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

	Three Months Ended March 31,	
Interest Income:	1994	1993
Loans, including fees:		
Taxable	$ 7,225	$ 7,158
Tax exempt.	23	25
Securities:		
Taxable	2,350	2,724
Tax exempt.	573	531
Federal funds sold	38	135
Interest-bearing time deposits	2	20
Total interest income.	10,211	10,593
Interest expense:		
Deposits	3,340	4,082
Short-term borrowings.	428	257
Total interest expense.	3,768	4,339
Net Interest Income	6,443	6,254
Provision for loan losses.	193	269
Net Interest Income After Provision For Loan Losses.	6,250	5,985
Total other income	1,590	1,585
Total other expenses	4,395	4,423
Income before income tax and cumulative effect of change in accounting method.	3,445	3,147
Income tax expense	1,199	1,092
Income before cumulative effect of change in accounting method	2,246	2,055
Cumulative effect of change in method of accounting for income taxes.		227
Net Income.	$ 2,246	$ 2,282
Per share:		
Income before cumulative effect of change in accounting method.	$ .66	$ .60
Net income	.66	.67
Weighted average shares outstanding	3,388,666	3,407,803

See notes to consolidated condensed financial statements.

FIRST MERCHANTS CORPORATION

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

	1994	1993
Balances, January 1	$ 68,804	$ 63,935
Net income.	2,246	2,282
Cash dividends.	(847)	(750)
Stock issued under dividend reinvestment and stock purchase plan	89	64
Stock options exercised	22	102
Stock redeemed.	(147)	
Cash paid in lieu of issuing fractional shares. .		(4)
Change in net unrealized holding losses on securities available for sale	(641)	
Balances, March 31.	$ 69,526	$ 65,629

See notes to consolidated condensed financial statements.

FIRST MERCHANTS CORPORATION

FORM 10-Q

CONSOLIDATED CONDENSED STATEMENT OF CASH FLOWS

(Dollar amounts in thousands)

(Unaudited)

	Three Months Ended March 31	
	1994	1993
Cash Flows From Operating Activities:		
Net income.	$ 2,246	$ 2,282
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses.	193	269
Depreciation and amortization.	283	214
	307	206
Change in interest receivable.	347	426
Change in interest payable	(35)	(12)
Other adjustments.	112	(91)
Net cash provided by operating.	3,453	3,294
Cash Flows From Investing Activities:		
Net change in interest-bearing time deposits. . .	251	(3)
Purchases of:		
Securities available for sale.	(6,880)	
Investment securities.	(18,061)	(39,360)
Proceeds from maturities and sales of:		
Securities available for sale.	4,293	
Investment securities.	15,468	25,560
Net change in loans	686	360
Purchases of premises and equipment	(114)	(319)
Other investing activities.	139	46
Net cash used in investing activities.	(4,218)	(13,716)
Cash Flows From Financing Activities:		
Net change in noninterest-bearing, NOW, money market and savings deposits.	(7,871)	(1,397)
Net change in certificates of deposit and other time deposits.	(2,389)	(4,437)
Net change in short-term funds.	13,953	(3,131)
Cash dividends.	(847)	(750)
Stock issued under dividend reinvestment and stock purchase plan	89	64
Stock options exercised	22	102
Stock redeemed.	(147)	
Cash paid in lieu of issuing fractional shares. .		(4)
Net cash provided (used) in financing activities	2,810	(9,553)
Net Increase (Decrease) in Cash and Cash activities.	2,045	(19,975)
Cash and Cash Equivalents, January 1	26,567	53,696
Cash and Cash Equivalents, March 31.	$ 28,612	$ 33,721

See notes to consolidated condensed financial statements.

FIRST MERCHANTS CORPORATION

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

NOTE 1. General

The significant accounting policies followed by First Merchants Corporation ("Corporation") and its subsidiaries for interim financial reporting are consistent with the accounting policies followed for annual financial reporting, except for the change in method of accounting for investment securities discussed more fully in Note 2. All adjustments which 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 financial statements.

NOTE 2. Change In Method of Accounting for Investment Securities

In May, 1993, the Financial Accounting Standard Board issued Statement of Financial Accounting Standards No. 115 (SFAS No. 115), ACCOUNTING FOR CERTAIN INVESTMENTS IN DEBT AND EQUITY SECURITIES. The statement requires that securities be classified in three categories and provides specific accounting treatment for each. Trading securities are bought and held primarily for sale in the near term and are carried at fair value, with unrealized holding gains and losses included in earnings; held-to-maturity securities, for which the intent is to hold to maturity, are carried at amortized cost; and available-for-sale securities are all others and are carried at fair value with unrealized holding gains and losses excluded from earnings and reported as a separate component of stockholders' equity.

The Corporation adopted SFAS No. 115 on January 1, 1994. At that date, securities with an approximate carrying value of $107,569,000 were reclassified as available for sale. This reclassification resulted in an increase in total stockholders' equity, net of tax, of $644,000.

NOTE 3. Securities Available for Sale

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Market Value
Securities available for sale at March 31, 199 31,				
U.S. Treasury	$ 12,012	$ 23	$ 190	$ 11,845
Federal agencies	27,313	20	296	27,037
State and municipal	9,077	54	217	8,914
Mortgage and other asset-backed securities	22,524	205	376	22,353
Federal Reserve stock	307			307
Federal Home Loan Bank stock .	1,572			1,572
Corporate obligations	39,025	278	561	38,742
Totals	$ 111,830	$ 580	$ 1,640	$ 110,770

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

NOTE 4. Investment Securities

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Market Value
Investment Securities at March 31, 1994:				
U.S. Treasury	$ 24,026	$ 258	$ 72	$ 24,212
Federal agencies	26,182	324	128	26,378
State and municipal	45,324	444	427	45,341
Mortgage and other asset-backed securities	694	6		700
Corporate obligations	3,068	6	32	3,042
Totals	$ 99,294	$ 1,038	$ 659	$ 99,673

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Market Value
Investment Securities at December 31, 1993:				
U.S. Treasury	$ 45,397	$ 654	$ 1	$ 46,050
Federal agencies	53,452	691	62	54,081
State and municipal	44,866	1,211	55	46,022
Mortgage and other asset-backed securities	23,690	219	93	23,816
Federal Reserve stock	307			307
Federal Home Loan Bank stock	1,572			1,572
Corporate obligations	36,959	581	87	37,453
Totals	$ 206,243	$ 3,356	$ 298	$ 209,301

FIRST MERCHANTS CORPORATION

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

NOTE 5. Loans and Allowance

	March 31, 1994	December 31, 1993
Loans:		
Commercial and industrial loans	$ 69,696	$ 76,760
Bankers' acceptances and loans to financial institutions	3,100	3,000
Agricultural production financing and other loans to farmers	5,399	5,591
Real estate loans:		
Construction	5,265	8,127
Commercial and farmland	60,773	58,235
Residential	155,254	150,572
Individuals' loans for household and other personal expenditures	73,864	70,347
Tax exempt loans	1,305	1,474
Other loans	1,376	2,766
Total loans	$ 376,032	$ 376,872
Nonperforming loans:		
Nonaccruing loans	$ 355	$ 527
Loans contractually past due 90 days or more other than nonaccruing	885	616
Restructured loans	848	879

	Three Months Ended March 31	
	1994	1993
Allowance for loan losses:		
Balances, January 1	$ 4,800	$ 4,351
Provision for losses	193	269
Recoveries on loans	44	74
Loans charged off	(247)	(194)
Balances, March 31	$ 4,790	$ 4,500

NOTE 6. Commitments and Contingent Liabilities

On May 11, 1993, the Corporation and First Merchants Bank, N.A., ("First Merchants") approved a change in the data processing function. In the fourth quarter of 1993, First Merchants assumed responsibility for the data processing function for the Corporation and its wholly owned subsidiaries. The data processing agreement with an outside party to provide data processing services was terminated three months early. The cost of the conversion, equipment and software was approximately $1,700,000. The equipment and software cost will be depreciated on a straight-line method based on the estimated useful lives of the assets.

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

RESULTS OF OPERATIONS

The Corporation has recorded 18 consecutive years of growth in operating earnings per share, reaching $2.48 in 1993 up 7.8 per cent from the prior year. Including the accounting adjustment described below, earnings per share totalled $2.55.

Return on assets, which exceeded 1 per cent for the first time in 1988, rose to 1.39 per cent in 1993, from 1.29 per cent in 1992 and 1.21 per cent in 1991.

Return on equity exceeded 12 per cent for the first time in 1989, was 12.41 per cent in 1991, 12.71 per cent in 1992, and 13.01 per cent in 1993.

Improvement was achieved in each of these ratios during the first quarter of 1994, as compared to the same period in 1993. 1993 ratios exclude the accounting adjustment described below.

- Earning per share were $.66, up 10.0 per cent from $.60
- Return on assets was 1.41 per cent increasing from 1.35 per cent
- Return on equity totalled 12.99 per cent compared to 12.64 per cent for the first quarter of 1993

In February 1992, The Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 109 (SFAS 109) on accounting for income taxes. The Corporation adopted SFAS 109 on January 1, 1993, the effect of which was to increase 1993 earnings by $227,000 or $.07 per share in the first quarter of 1993.

CAPITAL

First Merchants Corporation's capital strength continues to exceed regulatory minimums and peer group averages. Management believes that strong capital is a distinct advantage in the competitive environment in which the Corporation operates, and will provide a solid foundation for continued growth, and instilling customer confidence. First Merchants Corporation and its subsidiaries have received honors from various financial rating services recognizing the Banks for safety and soundness. Earnings asset quality and capital strength were considered in the ratings.

The Corporation's capital to assets ratio was 10.36 per cent at year end 1992, 10.99 per cent at December 31, 1993, and 11.03 per cent at March 31, 1994. At March 31, 1994, the Corporation had a Tier I risk-based capital ratio of 16.13 per cent, total risk-based capital ratio of 17.26 per cent and a leverage ratio of 10.82 per cent. Regulatory capital guidelines require a Tier I risk-based capital ratio of 4.0 per cent and a total risk-based capital ratio of 8.0 per cent.

The Corporation has an employee stock purchase plan and an employee stock option plan. Activity under this program is detailed in the Consolidated Condensed Statement of Changes in Stockholders' Equity. The transactions under these plans have not had a material effect in the Corporation's capital position.

ASSET QUALITY/PROVISION FOR LOAN LOSSES

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

The allowance for loan losses is maintained through the provision for loan losses, which is a charge against earnings. The amount provided for loan losses, and the determination of the adequacy of the allowance are based on a continuous review of the loan portfolio, including an internally administered loan "watch" list. The evaluation takes into consideration identified credit problems as well as the possibility of losses inherent in the loan portfolio that cannot be specifically identified.

The following table summarizes the risk elements for First Merchants Corporation and its peer group, consisting of bank holding companies with average assets between $500 million and $1 billion. The statistics were provided by the Federal Reserve System.

	Non-Performing Loans (1) at December 31 as a Per Cent of Loans	
	First Merchants	Peer Group
1994 (March 31)	.33%	N/A
1993	.28	1.55%
1992	.41	1.87
1991	.86	2.59
1990	1.09	2.62
1989	1.54	2.12

(1) Accruing loans past due 90 days or more, and non-accruing loans, but excluding restructured loans.

On March 31, 1994, the loan loss reserve stood at $4,790,000. As a per cent of loans, the reserve stood at 1.27 per cent compared to 1.27 per cent at year end 1993, and 1.24 per cent at year end 1992. Activity to the reserve is detailed in the following table. The provision for loan losses for the first quarter of 1994 declined to $193,000 from $269,000 for the same period of 1993, based on management's analysis of the adequacy of the reserve in light of improving credit quality in the loan portfolio.

FIRST MERCHANTS CORPORATION

FORM 10-Q

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

	1994 (1)	1993	1992	1991	1990
	(Dollar amount in thousands)				
Allowance for loan losses					
Balance at January 1	$ 4,800	$ 4,351	$ 3,867	$ 3,254	$ 2,915
Addition resulting from acquisition . . .				252	
Chargeoffs:					
Commercial	170	391	588	806	614
Real estate mortgage	0	129	100	41	46
Installment	77	388	552	511	590
Total chargeoffs	247	908	1,240	1,358	1,250
Recoveries:					
Commercial	22	240	215	227	195
Real estate mortgage	3	5	38	7	1
Installment	19	98	114 84	84	98
Total recoveries	44	343	367	318	294
Net chargeoffs	203	565	873	1,040	956
Provision for loan losses	193	1,014	1,357	1,401	1,295
Balance at December 31	$ 4,790	$ 4,800	$ 4,351	$ 3,867	$ 3,254
Ratio of net chargeoffs during the period to average loans outstanding during the period	.05%	.16%	.26%	.35%	.35%
Peer Group	N/A	.46%	.63%	.95%	.93%

(1) Through March 31, 1994

LIQUIDITY AND INTEREST SENSITIVITY

Asset/Liability Management has been an important factor in the Corporation's ability to record consistent earnings growth through periods of interest rate volatility and product deregulation. Management and the Board of Directors monitor the Corporation's liquidity and interest sensitivity positions at regular meetings to ensure that changes in interest rates will not adversely affect earnings. Decisions regarding 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.

First Merchants Corporation's liquidity and interest sensitivity position at March 31, 1994, remained adequate to meet the Corporation's primary goal of achieving optimum interest margins while avoiding undue interest rate risk. the table below represents the Corporation's interest rate sensitivity analysis as of March 31, 1994.

Interest-Rate Sensitivity Analysis
(Dollar amounts in thousands)

	At March 31, 1994				
	1-180 Days	181-365 Days	1-5 Years	Beyond 5 Years	Total
Rate-sensitive assets:					
Federal funds sold and interest-bearing time deposits	$ 4,353				$ 4,353
Securities	35,810	$ 36,503	$123,864	$ 13,887	210,064
Loans	235,319	20,802	90,516	29,395	376,032
Total rate-sensitive assets	$275,482	$ 57,305	$214,380	$ 43,282	$590,449
Rate-sensitive liabilities:					
Interest-bearing deposits	$223,491	$ 21,055	$186,585		$431,131
Other borrowed funds	60,843				60,843
Total rate-sensitive liabilities	$284,334	$ 21,055	$186,585		$491,974
Interest rate sensitivity gap by period . . .	$ (8,852)	$ 36,250	$27,795	$ 43,282	
Cumulative gap	(8,852)	27,398	55,193	98,475	
Cumulative ratio at March 31, 1994	96.89%	108.97%	111.22%	120.02%	

EARNING ASSETS

Earning assets grew $12.7 million in 1993 and $5.4 million during the first quarter of 1994. The growth occurred in loans with securities and short term investments declining over the 15 month period.

The following table presents the earning asset mix for the years ended 1992, 1993 and at March 31, 1994.

Earning Assets
(Dollars in Millions)

	March 31, 1994	December 31, 1993	December 31, 1992
Federal funds sold and interest bearing time deposits . . .	$ 4.4	$ 1.9	$ 25.7
Securities	210.0	206.2	196.3
Loans	376.0	376.9	350.3
Total	$ 590.4	$ 585.0	$ 572.3

DEPOSITS AND BORROWINGS

Total deposits declined by $5.7 million in 1993. Average deposits, however, grew $16.3 million in 1993, up 3.3 per cent from the same figure in 1992.

At March 31, 1994, deposits totalled at $496 million, down 2 per cent from year end 1993. Historically, the Corporation's deposits have peaked at year end, due to large corporate deposits, declined during the first quarter, then resumed growth. Average deposits during the period equalled $505.8 million or about .1 of 1 per cent below year end deposits.

Borrowed funds increased $14 million during the quarter, replacing the deposit decline of $10.3 million and funding the asset growth of $4.4 million.

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 earnings assets.

The table below indicates that the Corporation's asset yields have historically been more rate sensitive (volatile) than its cost of funds. Consequently, interest margins have tended to decline during falling interest rate environments since interest income declines at a faster rate than interest expense. The reverse has been true in a rising interest rate environment.

During 1992 , however, the opposite occurred as is demonstrated in the table below. Costs declined faster than interest income, allowing the margin to improve. Two major factors caused asset yields to "hold up" fairly well despite the falling rate environment. First, deposit rates declined more rapidly than the Corporation's base lending rate. Second, significant portfolio investments were made in a higher rate environment so that the Corporation's investment portfolio is currently yielding well above current market levels.

During 1993 and the first quarter of 1994, margins declined slightly as the rate of decline in asset yield exceeded the decline in costs. The decline in margin was offset by growth in earning assets resulting in increases in net interest income during 1993 and the first quarter of 1994.

	Net Interest Income on a Fully Taxable Equivalent Basis	Net Interest Margin on a Fully Taxable Equivalent Basis	Average Earning Assets
		(Dollars in Thousands)	
1994 (1st Quarter)	$ 6,750	4.55%	$593,820
1993	26,806	4.57	587,009
1992	26,400	4.66	566,467
1991	23,277	4.43	525,799
1990	20,055	4.19	478,113
1989	19,018	4.20	453,098

	Interest Income (FTE) as a Per Cent of Average Earning Assets	Interest Expense as a Per Cent of Average Earning Assets	Net Interest Income (FTE) as a Per Cent of Average Earning Assets
1994	7.09%	2.54%	4.55%
1993	7.38	2.81	4.57
1992	8.31	3.65	4.66
1991	9.48	5.05	4.43
1990	10.09	5.90	4.19
1989	10.28	6.08	4.20

Recent action by the Federal Reserve has pushed interest rates higher. This would serve to widen interest margins except for the fact that depositors may opt for longer term liabilities which pay higher rates of interest. The Corporation does, as mentioned earlier, consider the effect of changing rates in its loan and deposit pricing decisions and expects no significant change in the level of net interest margin as a result of higher interest rates.

OTHER INCOME

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

Other income reached $6,588,000 in 1993, an increase of 18.2 per cent over the prior year.

Trust revenues grew $180,000, or 8.1 per cent while service charges on deposit accounts were up by $250,000, or 11.1 per cent. Securities gains totalled $395,000, an increase of $328,000, or 493.4 per cent.

Other income during the first quarter of 1994 exceeded the same quarter in 1993 by $5,000 or .3 per cent. Service charge income declined by about $60,000 when compared to the same quarter of 1993 due primarily to timing differences in the assessment of charges to large corporate accounts. That decline was mostly offset by a $44,000 (7.6 per cent) increase in trust fees.

OTHER EXPENSE

Total "other expenses" represent non-interest operating expenses of the Corporation. Those expenses reached $18,215,000 in 1993, up $611,000, or 3.5 per cent, from 1992. Salary and benefit expenses increased by $330,000, or 3.8 per cent, and premises and equipment expense rose $254,000, or 12.8 per cent.

First quarter 1994 other expenses were down $28,000 or .6 per cent from the same quarter in 1993. Increased salary and benefit expense of $201,000 (9.2 per cent) was offset by declines in several other categories, primarily data processing.

On May 11, 1993, the Corporation and First Merchants approved a change in the data processing function. In the fourth quarter of 1993, First Merchants assumed responsibility for the data processing function for the Corporation and its wholly owned subsidiaries. The data processing agreement with an outside party to provide data processing management was terminated three months early. The cost of the conversion, equipment and software was approximately $1,700,000. The equipment and software costs will be depreciated on a straight-line method based on the estimated useful lives of the assets. The Corporation estimates that data processing costs declined under the new arrangement by more than $100,000 during the first quarter of 1994.

INCOME TAXES

The increase in 1993 tax expense was attributable to a $1,042,000 increase in pre-tax net income.

During the first quarter of 1994, income tax expense grew slightly from the same period one year earlier, also due to a $298,000 increase in pre-tax net income.

The following is a breakdown, by year, of federal and state income taxes.

	Twelve Months Ended December 31, 1993	1992
	(Dollars in Thousands)	
Federal taxes	$ 3,272	$ 3,033
State taxes	1,124	1,008
Total	$ 4,396	$ 4,041

	Three Months Ended March 31, 1994	1993
Federal taxes	$ 898	$ 825
State taxes	301	267
Total	$ 1,199	$ 1,092

In February, 1992, The Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 109 (SFAS 109) on accounting for income taxes. The Corporation adopted SFAS on January 1, 1993, the effect of which was to increase earnings by $227,000.

INFLATION

Changing prices of goods, services and capital affect the financial position of every business enterprise. The level of market interest rates and the price of funds loaned or borrowed fluctuate due to changes in the rate of inflation and various other factors, including government monetary policy.

Fluctuating interest rates affect First Merchants' net interest income, loan volume, and other operating expenses, such as employees' salaries and benefits, reflecting the effects of escalating prices, as well as increased levels of operations and other factors. As the inflation rate increases, the purchasing power of the dollar decreases. Those holding fixed rate monetary assets incur a loss while those holding fixed rate monetary liabilities enjoy a gain. The nature of a bank holding company's operations is such that there will be an excess of monetary assets over monetary liabilities and, thus, a bank holding company will tend to suffer from an increase the rate of inflation and benefit from a decrease.

FIRST MERCHANTS CORPORATION

FORM 10-Q

PART II. OTHER INFORMATION

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

The 1994 Annual Meeting of Stockholders was held on March 31, 1994. Set forth below are the matters, other than the election of directors and the ratification of the independent auditor, voted upon at the Annual Meeting and the result of the vote:

- The adoption of the First Merchants Corporation Employee Stock Purchase Plan (1994).

For	3,063,337
Against	30,331
Abstaining	29,621

- The adoption of the First Merchants Corporation 1994 Stock Option Plan.

For	3,058,356
Against	33,085
Abstaining	31,849

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) No exhibits are required to be filed.

(b) No reports were filed on Form 8-K during the quarter ended March 31, 1994.

FIRST MERCHANTS CORPORATION

FORM 10-Q

SIGNATURES

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

FIRST MERCHANTS CORPORATION
(Registrant)

Date May 10, 1994 by /s/ Stefan S. Anderson

Stefan S. Anderson
President and Director

Date May 10, 1994 by /s/ James L. Thrash

James L. Thrash
Chief Financial & Principal
Accounting Officer