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 September 30, 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 November 7, 1994, there were outstanding 3,372,824 common shares, without par value, of the registrant.

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

	September 30 1994	December 31 1993
ASSETS:		
Cash and due from banks	$ 21,889	$ 24,942
Federal funds sold	1,225	1,625
Cash and cash equivalents	23,114	26,567
Interest-bearing time deposits		254
Securities available for sale	100,447	
Investment securities (market value $89,543 and $209,301)	89,957	206,243
Loans:		
Loans, net of unearned interest	393,394	376,872
Less: Allowance for loan losses	5,120	4,800
Net loans	388,274	372,072
Premises and equipment	9,139	9,441
Interest receivable	5,839	5,665
Core deposit intangibles and goodwill	2,009	2,108
Others assets	5,361	3,763
Total assets	$ 624,140	$ 626,113
LIABILITIES:		
Deposits:		
Noninterest bearing	$ 71,221	$ 74,546
Interest bearing	434,474	431,756
Total deposits	505,695	506,302
Short-term borrowings	42,533	46,890
Interest payable	1,227	1,226
Other liabilities	3,411	2,891
Total liabilities	552,866	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 -- 3,391,229 and 3,389,591 shares	424	424
Additional paid-in capital	17,035	17,068
Retained earnings	55,505	51,312
Net unrealized losses on securities available for sale	(1,690)	
Total stockholders' equity	71,274	68,804
Total liability and stockholders' equity	$ 624,140	$ 626,113

See notes to consolidated condensed financial statements.

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

	Three Months Ended September 30		Nine Months Ended September 30	
	1994	1993	1994	1993
Interest Income:				
Loans, including fees:				
Taxable.	$ 8,301	$ 7,059	$ 23,280	$ 21,472
Tax exempt	20	26	64	94
Securities:				
Taxable.	2,063	2,484	6,657	7,869
Tax exempt	618	620	1,819	1,765
Federal funds sold	14	134	84	395
Interest-bearing time deposits		4	2	32
Total interest income	11,016	10,327	31,906	31,627
Interest Expense:				
Deposits	3,600	3,740	10,440	11,784
Short-term borrowings.	591	311	1,448	838
Total interest expense.	4,191	4,051	11,888	12,622
Net Interest Income.	6,825	6,276	20,018	19,005
Provision for loan losses.	201	243	593	782
Net Interest Income After Provision for loan losses. . .	6,624	6,033	19,425	18,223
Other Income:				
Securities, Gains, Net			11	394
Other Income	1,557	1,481	4,686	4,607
Total other income.	1,557	1,481	4,697	5,001
Total other expenses	4,758	4,467	13,668	13,490
Income before income tax and cumulative effect of change in accounting method.	3,423	3,047	10,454	9,734
Income tax expense	1,196	1,033	3,621	3,346
Income before cumulative effect of change in accounting method.	2,227	2,014	6,833	6,388
Cumulative effect of change in method of accounting for income taxes				227
Net Income	$ 2,227	$ 2,014	$ 6,833	$ 6,615
Per Share:				
Income before cumulative effect of change in accounting method.	$ .66	$ .59	$ 2.02	$ 1.87
Net income	.66	.59	2.02	1.94
Dividends.	.28	.25	.78	.69
Weighted average shares outstanding.	3,390,705	3,426,651	3,386,946	3,415,206

See notes to consolidated condensed financial statements.

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

	1994	1993
Balance, January 1	$ 68,804	$ 63,935
Net income	6,833	6,615
Cash dividends	(2,640)	(2,357)
Stock issued under employee benefit plans	250	247
Stock issued under dividend reinvestment and stock purchase plan	261	214
Stock options exercised	94	148
Stock redeemed	(638)	
Cash paid in lieu of issuing fractional shares		(4)
Change in net unrealized losses on securities available for sale	(1,690)	
Balances, September 30	$ 71,274	$ 68,798

See notes to consolidated condensed financial statements.

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CONSOLIDATED CONDENSED STATEMENT OF CASH FLOWS
(Dollar amounts in thousands)
(Unaudited)

	Nine Months Ended September 30	
	1994	1993
Cash Flows From Operating Activities:		
Net income	$ 6,833	$ 6,615
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	593	782
Depreciation and amortization	842	644
Securities amortization, net	825	703
Change in interest receivable	(214)	(136)
Change in interest payable	1	(158)
Other adjustments	8	(964)
Net cash provided by operating activities	8,888	7,486
Cash Flows From Investing Activities:		
Net change in interest-bearing time deposits	254	1,250
Purchases of:		
Securities available for sale	(18,204)	
Investment securities	(28,382)	(91,541)
Proceeds from maturities and sales of:		
Securities available for sale	23,870	
Investment securities	34,875	73,400
Net change in loans	(17,044)	(13,574)
Purchases of premises and equipment	(540)	(2,054)
Other investing activities	467	350
Net cash used in investing activities	(4,704)	(32,169)
Cash Flows From Financing Activities:		
Net change in noninterest-bearing, NOW, money market and savings deposits	(4,076)	3,167
Net change in certificates of deposit and other time deposits	3,469	(11,898)
Net change in short-term borrowings	(4,357)	7,521
Cash dividends	(2,640)	(2,357)
Stock issued under employee benefit pans	250	247
Stock issued under dividend reinvestment and stock purchase plan	261	214
Stock options exercised	94	148
Stock redeemed	(638)	
Cash paid in lieu of issuing fractional shares		(4)
Net cash used in financing activities	(7,637)	(2,962)
Net Decrease in Cash and Cash Equivalents	(3,453)	(27,645)
Cash and Cash Equivalents, January 1	26,567	53,696
Cash and Cash Equivalents, September 30	$ 23,114	$ 26,051

See notes to consolidated condensed financial statements.

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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 September 30, 1994:				
U.S. Treasury.	$ 10,865		$ 380	$ 10,485
Federal agencies	31,829	$ 3	671	31,161
State and municipal.	9,035	53	262	8,826
Mortgage and other asset-backed securities	23,027	54	665	22,416
Federal Reserve stock.	307			307
Federal Home Loan Bank stock	1,572			1,572
Corporate obligations.	26,610	17	947	25,680
Totals	$ 103,245	$ 127	$ 2,925	$ 100,447

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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 September 30, 1994:				
U.S. Treasury	$ 14,194	$ 71	$ 155	$ 14,110
Federal agencies	24,916	97	302	24,711
State and municipal	47,870	349	437	47,782
Mortgage and other asset-backed securities	433	2		435
Corporate obligations	2,544	1	40	2,505
Totals	$ 89,957	$ 520	$ 934	$ 89,543

	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

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

NOTE 5. Loans and Allowance

	September 30 1994	December 31 1993
Loans:		
Commercial and industrial loans	$ 72,319	$ 76,760
Bankers' acceptances and loans to financial institutions	3,000	3,000
Agricultural production financing and other loans to farmers	7,902	5,591
Real estate loans:		
Construction	7,021	8,127
Commercial and farmland	63,794	58,235
Residential	162,091	150,572
Individuals' loans for household and other personal expenditures	74,870	70,347
Tax exempt loans	1,081	1,474
Other loans	1,316	2,766
Total loans	$ 393,394	$ 376,872
Nonperforming loans:		
Nonaccruing loans	$ 237	$ 527
Loans contractually past due 90 days or more other than nonaccruing	776	616
Restructured loans	836	879

	Nine Months Ended September 30	
	1994	1993
Allowance for loan losses:		
Balances, January 1	$ 4,800	$ 4,351
Provision for losses	593	782
Recoveries on loans	249	196
Loans charged off	(522)	(712)
Balances, September 30	$ 5,120	$ 4,617

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 average assets which exceeded 1 per cent for the first time in 1988, reached 1.21 per cent in 1991, 1.29 per cent in 1992, and 1.39 per cent in 1993.

Return on equity exceeded 12 per cent for the first time in 1989 (12.19 per cent), was 12.41 per cent in 1991, 12.71 per cent in 1992, and 13.01 per cent in 1993.

Improvement was achieved in two of these ratios during the first nine months of 1994, as compared to the same period in 1993. Return on equity declined slightly. The 1993 ratios exclude the accounting adjustment described below.

- Earning per share were $2.02 up 8.0 per cent from $1.87
- Return on assets was 1.44 per cent increasing from 1.37 per cent
- Return on equity totalled 13.04 per cent compared to 12.83 per cent for the first nine months 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 11.42 per cent at September 30, 1994. 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 following table presents risk-based capital ratios for September 30, 1994 and December 31, 1993.

	September 30 1994	December 31 1993
Tier I risk-based capital ratio	16.68%	16.36%
Total risk-based capital ratio	17.87	17.53
Leverage ratio	11.32	10.41

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 (September 30)	.26%	N/A
1993	.30	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 September 30, 1994, the loan loss reserve stood at $5,120,000. As a per cent of loans, the reserve stood at 1.30 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 nine months of 1994 declined to $593,000 from $782,000 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.

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 amounts 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	251	391	588	806	614
Real estate mortgage	13	129	100	41	46
Installment	258	388	552	511	590
Total chargeoffs	522	908	1,240	1,358	1,250
Recoveries:					
Commercial	162	240	215	227	195
Real estate mortgage	24	5	38	7	1
Installment	63	98	114	84	98
Total recoveries	249	343	367	318	294
Net chargeoffs	273	565	873	1,040	956
Provision for loan losses	593	1,014	1,357	1,401	1,295
Balance at December 31	$ 5,120	$ 4,800	$ 4,351	$ 3,867	$ 3,254
Ratio of net chargeoffs during the period to average loans outstanding during the period	.07%	.16%	.26%	.35%	.35%
Peer Group	N/A	.50%	.63%	.95%	.93%

(1) Through September 30, 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 September 30, 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 September 30, 1994.

INTEREST-RATE SENSITIVITY ANALYSIS
(Dollar amounts in thousands)

	At September 30, 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.	$ 1,225				$ 1,225
Securities	40,623	$ 22,432	$ 120,194	$ 7,155	190,404
Loans.	197,855	44,343	107,181	44,015	393,394
Total rate-sensitive assets.	239,703	66,775	227,375	51,170	585,023
Rate-sensitive liabilities:					
Interest-bearing deposits.	209,999	25,090	199,266	119	434,474
Other borrowed funds	42,533				42,533
Total rate-sensitive liabilities	252,532	25,090	199,266	119	477,007
Interest rate sensitivity gap by period. .	$(12,829)	$ 41,685	$ 28,109	$ 51,051	
Cumulative gap	(12,829)	28,856	56,965	108,016	
Cumulative ratio at September 30, 1994 . .	94.9%	100.4%	111.9%	122.6%	

EARNING ASSETS

Earning assets grew $12.7 million in 1993 and remained level during the first nine months of 1994. The following table presents the earning asset mix for the years ended 1992, 1993 and at September 30, 1994.

EARNING ASSETS
(Dollar amounts in Millions)

	September 30 1994	December 31 1993	December 31 1992
Federal funds sold and interest bearing time deposits.	$ 1.2	$ 1.9	$ 25.7
Securities	190.4	206.2	196.3
Loans.	393.4	376.9	350.3
Total.	$ 585.0	$ 585.0	$ 572.3

Loans comprise 67.2 per cent of earning assets at September 30, 1994, up from 64.4 per cent at December 31, 1993, and 61.2 per cent at December 31, 1992. Strong loan demand and lack of deposit growth (see below) account for the increase.

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 September 30, 1994, deposits totalled at $505.7 million, down slightly from year end 1993. Average deposits during the nine month period equalled $509.5 million, down $2.3 million from the same period one year earlier.

Short-term borrowings amounted to $42.5 million, down from $46.9 million at year end 1993.

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.

In 1993, 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 an increases in net interest income during 1993 of $406,000.

During the first nine months of 1994 average earning assets grew by just under $8 million while interest margins improved .13 per cent (interest expense as a per cent of average earning assets fell .14 per cent while asset yields fell only .01 per cent). Those two factors combine to result in an improvement of $1,024,000 in net interest income on a fully taxable equivalent basis.

	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 Nine months)	$ 20,987	4.70%	$ 594,954
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 (1st Nine months)	7.37%	2.67%	4.70%
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 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 was $4,697,000 in the first nine months of 1994, down $304,000 from the same period in 1993. All of the decline is attributable to securities gains which totaled $394,000 in 1993, but only $11,000 in 1994.

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.

In the first nine months of 1994 other expenses were up $178,000 or 1.3 per cent from the same period in 1993. Increased salary and benefit expense of $636,000 (10.4 per cent) was mostly offset by declines in several other categories, primarily data processing costs.

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 $300,000 during the nine months 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 nine months of 1994, income tax expense grew $275,000 from the same period one year earlier, also due to a $720,000 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

	Nine Months Ended September 30	
	1994	1993
	(Dollars in Thousands)	
Federal taxes.	$ 2,733	$ 2,523
State taxes.	888	823
Total.	$ 3,621	$ 3,346

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.

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PART II. OTHER INFORMATION

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 September 30, 1994.

No other information is required to be filed under Part II of this form.

FIRST MERCHANTS CORPORATION

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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	November 9, 1994	by	/s/ Stefan S. Anderson
			Stefan S. Anderson President and Director
Date	November 9, 1994	by	/s/ James L. Thrash
			James L. Thrash Chief Financial & Principal Accounting Officer

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED CONDENSED BALANCE SHEET AND CONSOLIDATED CONDENSED STATEMENT OF INCOME FOUND ON PAGE 3 AND 4 OF THE COMPANY'S FORM 10-Q FOR THE YEAR-TO-DATE, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

9-MOS
DEC-31-1994
JAN-01-1994
SEP-30-1994
21,889
0
1,225
0
100,447
89,957
89,543
393,394
5,120
624,140
505,695
42,533
4,638
0
424
0
0
70,850
624,140
23,344
8,476
86
31,906
10,440
11,888
20,018
593
11
13,668
10,454
6,833
0
0
6,833
2.02
2.02
0
0
0
0
0
0
0
0
0
0
0
0