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 June 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 August 4, 1994, there were outstanding 3,393,756 common shares, without par value, of the registrant.

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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)

	June 30 1994	December 31 1993
ASSETS:		
Cash and due from banks	$ 29,188	$ 24,942
Federal funds sold	4,700	1,625
Cash and cash equivalents	33,888	26,567
Interest-bearing time deposits		254
Securities available for sale	103,053	
Investment securities (market value $99,817 and $209,301)	100,098	206,243
Loans:		
Loans, net of unearned interest	390,565	376,872
Less: Allowance for loan losses	4,923	4,800
Net loans	385,642	372,072
Premises and equipment	9,146	9,441
Interest receivable	6,042	5,665
Core deposit intangibles and goodwill	2,042	2,108
Others assets	4,353	3,763
Total assets	$ 644,264	$ 626,113
LIABILITIES:		
Deposits:		
Noninterest bearing	$ 81,057	$ 74,546
Interest bearing	437,372	431,756
Total deposits	518,429	506,302
Short-term borrowings	52,381	46,890
Interest payable	1,193	1,226
Other liabilities	2,363	2,891
Total liabilities	574,366	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 -- 3,380,569 and 3,389,591 shares	423	424
Additional paid-in capital	16,800	17,068
Retained earnings	54,227	51,312
Net unrealized losses on securities available for sale	(1,552)	
Total stockholders' equity	69,898	68,804
Total liability and stockholders' equity	$ 644,264	$ 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 June 30		Six Months Ended June 30	
	1994	1993	1994	1993
Interest Income:				
Loans, including fees:				
Taxable	$ 7,754	$ 7,255	$ 14,979	$ 14,413
Tax exempt	21	43	44	68
Securities:				
Taxable	2,244	2,661	4,594	5,385
Tax exempt	628	614	1,201	1,145
Federal funds sold	32	126	70	261
Interest-bearing time deposits		8	2	28
Total interest income	10,679	10,707	20,890	21,300
Interest expense:				
Deposits	3,500	3,962	6,840	8,044
Short-term borrowings	429	270	857	527
Total interest expense	3,929	4,232	7,697	8,571
Net Interest Income	6,750	6,475	13,193	12,729
Provision for loan losses	199	270	392	539
Net Interest Income After Provision For Loan Losses	6,551	6,205	12,801	12,190
Total other income	1,550	1,935	3,140	3,520
Total other expenses	4,515	4,600	8,910	9,023
Income before income tax and cumulative effect of change in accounting method	3,586	3,540	7,031	6,687
Income tax expense	1,226	1,221	2,425	2,313
Income before cumulative effect of change in accounting method	2,360	2,319	4,606	4,374
Cummulative effect of change in method of accounting for income taxes				227
Net Income	$ 2,360	$ 2,319	$ 4,606	$ 4,601
Per share:				
Income before cumulative effect of change in accounting method	$ .70	$ .68	$ 1.36	$ 1.28
Net income	.70	.68	1.36	1.35
Dividends	.25	.22	.50	.44
Weighted average shares outstanding	3,381,468	3,411,165	3,385,047	3,409,493

See notes to consolidated condensed financial statements.

FIRST MERCHANTS CORPORATION

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

	1994	1993
Balances, January 1.	$ 68,804	$ 63,935
Net income	4,606	4,601
Cash dividends	(1,691)	(1,500)
Stock issued under dividend reinvestment and stock purchase plan	170	134
Stock options exercised.	41	102
Stock redeemed	(480)	
Cash paid in lieu of issuing fractional shares . . .		(4)
Change in net unrealized losses on securities available for sale	(1,552)	
Balances, June 30.	$ 69,898	$ 67,268

See notes to consolidated condensed financial statements.

FIRST MERCHANTS CORPORATION

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

	Six Months Ended June 30	
	1994	1993
Cash Flows From Operating Activities:		
Net income.	$ 4,606	$ 4,601
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses.	392	539
Depreciation and amortization.	563	428
Securities amortization, net	563	447
Change in interest receivable.	(409)	(126)
Change in interest payable	(33)	(133)
Other adjustments.	(212)	(428)
Net cash provided by operating activities . . .	5,470	5,328
Cash Flows From Investing Activities:		
Net change in interest-bearing time deposits . . .	254	1,248
Purchases of:		
Securities available for sale.	(12,559)	
Investment securities.	(27,653)	(70,663)
Proceeds from maturities and sales of:		
Securities available for sale.	16,016	
Investment securities.	24,127	50,879
Net change in loans.	(14,010)	(9,374)
Purchases of premises and equipment.	(268)	(947)
Other investing activities	286	134
Net cash used in investing activities	(13,807)	(28,723)
Cash Flows From Financing Activities:		
Net change in noninterest-bearing, NOW, money market and savings deposits.	13,109	22,348
Net change in certificates of deposit and other time deposits.	(982)	(10,683)
Net change in short-term borrowings	5,491	14,056
Cash dividends.	(1,691)	(1,500)
Stock issued under dividend reinvestment and stock purchase plan.	170	134
Stock options exercised	41	102
Stock redeemed.	(480)	
Cash paid in lieu of issuing fractional shares. . .		(4)
Net cash provided by financing activities . . .	15,658	24,453
Net Increase in Cash and Cash Equivalents.	7,321	1,058
Cash and Cash Equivalents, January 1	26,567	53,696
Cash and Cash Equivalents, June 30	$ 33,888	$ 54,754

See notes to consolidated condensed financial statements.

FIRST MERCHANTS CORPORATION

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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 June 30, 1994:				
U.S. Treasury.	$ 9,897		$ 338	$ 9,559
Federal agencies	29,257	$ 18	593	28,682
State and municipal.	9,055	54	232	8,877
Mortgage and other asset-backed securities.	23,835	87	715	23,207
Federal Reserve stock.	307			307
Federal Home Loan Bank stock	1,572			1,572
Corporate obligations.	31,700	47	898	30,849
Totals.	$ 105,623	$ 206	$ 2,776	$ 103,053

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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 June 30, 1994:				
U.S. Treasury.	$ 18,216	$ 126	$ 136	$ 18,206
Federal agencies	28,452	160	305	28,307
State and municipal.	49,879	383	471	49,791
Mortgage and other asset-backed securities	494	3		497
Corporate obligations.	3,057	2	43	3,016
Totals.	$ 100,098	$ 674	$ 955	$ 99,817

	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

	June 30 1994	December 31 1993
Loans:		
Commercial and industrial loans.	$ 75,413	$ 76,760
Bankers' acceptances and loans to financial institutions		3,000
Agricultural production financing and other loans to farmers	7,933	5,591
Real estate loans:		
Construction	4,486	8,127
Commercial and farmland.	63,106	58,235
Residential.	162,636	150,572
Individuals' loans for household and other personal expenditures	74,169	70,347
Tax exempt loans	1,204	1,474
Other loans.	1,618	2,766
Total loans	$ 390,565	$ 376,872
Nonperforming loans:		
Nonaccruing loans.	$ 142	$ 527
Loans contractually past due 90 days or more other than nonaccruing.	1,024	616
Restructured loans	929	879

	Six Months Ended June 30	
Allowance for loan losses:	1994	1993
Balances, January 1	$4,800	$4,351
Provision for losses	392	539
Recoveries on loans.	84	134
Loans charged off.	(353)	(418)
Balances, June 30.	$4,923	$4,606

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 astraight-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 half 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 $1.36 up 6.3 per cent from $1.28
- Return on assets was 1.45 per cent increasing from 1.42 per cent
- Return on equity totalled 13.27 per cent compared to 13.33 per cent for the first half 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 10.85 per cent at June 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 June 30, 1994 and December 31, 1993.

	June 30 1994	December 31 1993
Tier I risk-based capital ratio	15.98%	16.36%
Total risk-based capital ratio	17.11	17.53
Leverage ratio	10.98	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 (June 30)	.30%	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 June 30, 1994, the loan loss reserve stood at $4,923,000. As a per cent of loans, the reserve stood at 1.26 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 six months of 1994 declined to $392,000 from $539,000 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.	185	391	588	806	614
Real estate mortgage.		129	100	41	46
Installment	168	388	552	511	590
Total chargeoffs	353	908	1,240	1,358	1,250
Recoveries:					
Commercial.	41	240	215	227	195
Real estate mortgage.	5	5	38	7	1
Installment	38	98	114	84	98
Total recoveries	84	343	367	318	294
Net chargeoffs	269	565	873	1,040	956
Provision for loan losses.	392	1,014	1,357	1,401	1,295
Balance at December 31	$ 4,923	$ 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 June 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 June 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 June 30, 1994.

INTEREST-RATE SENSITIVITY ANALYSIS
(Dollar amounts in thousands)

	At June 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.	$ 4,700				$ 4,700
Securities.	42,974	$ 28,243	$117,053	$ 14,881	203,151
Loans	241,675	18,588	95,139	35,163	390,565
Total rate-sensitive assets.	289,349	46,831	212,192	50,044	598,416
Rate-sensitive liabilities:					
Interest-bearing deposits	208,615	24,156	204,484	117	437,372
Other borrowed funds.	52,381				52,381
Total rate-sensitive liabilities	260,996	24,156	204,484	117	489,753
Interest rate sensitivity gap by period. . .	$ 28,353	$ 22,675	$ 7,708	$ 49,927	
Cumulative gap	28,353	51,028	58,736	108,663	
Cumulative ratio at June 30, 1994.	110.9%	117.9%	112.0%	122.2%	

EARNING ASSETS

Earning assets grew $12.7 million in 1993 and $13.5 million during the first six months of 1994. The following table presents the earning asset mix for the years ended 1992, 1993 and at June 30, 1994.

EARNING ASSETS
(Dollar amounts in Millions)

	June 30, 1994	December 31, 1993	December 31, 1992
Federal funds sold and interest bearing time deposits	$ 4.7	$ 1.9	$ 25.7
Securities	203.2	206.2	196.3
Loans	390.6	376.9	350.3
Total	$ 598.5	$ 585.0	$ 572.3

Loans comprise 65.3 per cent of earning assets at June 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 moderate 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 June 30, 1994, deposits totalled at $518.4 million, up 2.4 per cent from year end 1993. Average deposits during the period equalled $512.1 million, essentially even with the same period one year earlier.

Short-term borrowings amounted to $52.4 million, up from $46.9 million at year end 1993, and $51.1 million at June 30, 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 half of 1994 average earning assets grew by just over $9 million while interest margins improved .07 per cent (interest expense as a per cent of average earning assets fell .23 per cent while asset yields fell only .16 per cent). Those two factors combine to result in an improvement of $1,064,000 in net interest income on an annualized 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 Six months)	$ 13,835	4.64%	$ 596,080
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 Six months)	7.22%	2.58%	4.64%
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 $3,140,000 in the first half of 1994, down $380,000 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 six months of 1994 other expenses were down $113,000 or .6 per cent from the same period in 1993. Increased salary and benefit expense of $370,000 (8.3 per cent) was 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 $200,000 during the first half 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 six months of 1994, income tax expense grew $112,000 from the same period one year earlier, also due to a $344,000 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	Twelve Months Ended December 31, 1992
	(Dollars in Thousands)	
Federal taxes.	$ 3,272	$ 3,033
State taxes.	1,124	1,008
Total.	$ 4,396	$ 4,041

	Six Months Ended June 30, 1994	Six Months Ended June 30, 1993
Federal taxes.	$ 1,814	$ 1,747
State taxes.	611	566
Total.	$ 2,425	$ 2,313

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.

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 June 30, 1994.

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

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