FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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MERCHANTS BANCSHARES INC

CIK:**726517**| IRS No.: **030287342** | State of Incorp.:**DE** | Fiscal Year End: **1231**
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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTER ENDED MARCH 31, 1994
COMMISSION FILE NUMBER 0-11595

MERCHANTS BANCSHARES, INC.
(A DELAWARE CORPORATION)
EMPLOYER IDENTIFICATION NO. 03-0287342

123 Church Street, Burlington, VT 05401

Telephone: (802) 658-3400

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

YES X NO
--- ---

4,242,927 Shares Common Stock, $.01 Par Outstanding March 31, 1994.

Merchants Bancshares, Inc.

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MERCHANTS BANCSHARES, INC.
CONSOLIDATED BALANCE SHEET
UNAUDITED
(Dollar Amounts in Thousands)

	March 31 1994	RESTATED March 31 1993	DECEMBER 31 1993
ASSETS			
Cash and Due From Banks	$ 28,191	$ 25,841	$ 30,588
Federal Funds Sold	8,800	0	0
Debt Securities Available for Sale	83,697	109,248	85,506
Marketable Equity Securities	1,487	1,226	1,452
Total Investments	85,184	110,474	86,958
Loans	415,255	425,120	440,592
Segregated Assets	121,773	0	132,879
Less: Reserve for Possible Loan Losses	(16,642)	(11,598)	(20,060)
Net Loans	520,386	413,522	553,411
FHLB Stock	6,856	4,117	5,574
Bank Premises and Equipment	15,839	14,299	16,148
Investment in Housing Partnerships	4,751	5,456	4,610
OREO and Insubstance Foreclosure	15,214	12,333	13,674
Other Assets	25,550	14,156	24,085
Total Assets	$ 710,771	$ 600,198	$ 735,048
LIABILITIES AND STOCKHOLDERS' EQUITY			
Deposits:			
Demand	$ 82,858	$ 60,879	$ 96,413
Savings, NOW and Money Market Accounts	311,887	281,379	321,821
Certificates of Deposit $100,000 and Over	17,960	7,156	21,215
Other Time	178,415	116,356	179,860
Total Deposits	591,120	465,770	619,309
Fed Funds Purchased & Short Term Borrowings	12,000	14,600	7,500
Securities Sold U/A to Repurchase	0	6,338	1,681
Demand Note Due U/S Treasury	4,381	3,921	5,743
Other Liabilities	9,887	9,563	8,462
Total Liabilities	617,388	500,192	642,695
Long-Term Debt	46,632	49,036	46,633
Stockholders' Equity			
Common Stock, $.01 Par Value	42	42	42
Shares Authorized 4,700,000			
Outstanding, Current Year 4,242,927			
Previous Year 4,242,927			
December 31, 1993 4,242,927			
Treasury Stock (at Cost)	(179)	(353)	(179)
Surplus	30,648	30,644	30,647
Undivided Profits	16,838	20,637	15,354
Valuation Allowance-Investments (Net of Taxes)	(598)	0	(144)
Total Stockholders' Equity	46,751	50,970	45,720
Total Liabilities and Sharehold Equity	$ 710,771	$ 600,198	$ 735,048
Book Value per Share	$11.05	$12.08	$10.74

MERCHANTS BANCSHARES, INC.
CONSOLIDATED STATEMENT OF OPERATIONS
UNAUDITED
(Dollar Amounts in Thousands, Except for Per Share Data)

	Quarter Ended March 31, 1994	RESTATED 1993
Interest Income:		
Interest on Loans	$ 11,335	$ 9,002
Investment Income:		
Obligations of U.S. Government	791	1,005
Other	131	107
Federal Funds Sold	62	13
	$ 12,319	$ 10,127
Interest Expense:		
Interest on Deposits	$ 4,181	$ 3,590
Interest on Capital Notes and Other Borrowings	1,233	1,189
	$ 5,414	$ 4,779
Net Interest Income	$ 6,905	$ 5,348
Provision for Possible Loan Losses	1,250	5,008
Net Interest Income after Provision for Possible Loan Losses	$ 5,655	$ 340
Other Income:		
Fees on Loans	$ 1,030	$ 933
Service Charges on Deposits	891	747
Other	1,213	2,475
	$ 3,134	$ 4,155
Other Expenses:		
Salaries and Wages	$ 2,559	$ 1,947
Employee Benefits	670	619
Occupancy Expense, Net	693	448
Equipment Expense	466	404
Low Income Housing Losses	223	232
Expenses Other Real Estate Owned	338	620
Other	2,156	1,487
	$ 7,105	$ 5,757
Income (Loss) Before Income Taxes	$ 1,684	$ (1,262)
Provision (Benefit) for Income Taxes	246	(792)
Net Income (Loss)	$ 1,438	$ (470)
Per Common Share Net Income (Loss)	$ 0.34	$ (0.11)
Dividends Paid Per Share	$ 0.00	$ 0.20
Weighted Average Common Shares	4,230,193	4,174,914

<TABLE>

MERCHANTS BANCSHARES, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 1993 AND
THE THREE MONTHS ENDED MARCH 31, 1994 AND 1993
UNAUDITED
(Thousands of Dollars)

<CAPTION>

<S>	Common Stock <C>	Surplus <C>	Undivided Profits <C>	Treasury Stock <C>	Net Unrealized Depreciation Securities <C>	Total Equity Capital <C>
Balance - December 31, 1992	$ 42	$ 30,636	$ 21,949	$ (424)	$ 0	$ 52,203
Net Loss			(470)			(470)
Treasury Stock Transactions		8	7	71		86
Cash Dividend ($.20 per share)			(849)			(849)
Balance - March 31, 1993	$ 42	$ 30,644	$ 20,637	$ (353)	$ 0	$ 50,970
Net Loss			(5,311)			(5,311)
Treasury Stock Transactions		4	27	174		205
Change in Net Unrealized Depreciation of Investment Securities					(144)	(144)
Balance - December 31, 1993	$ 42	$ 30,648	$ 15,353	$ (179)	$ (144)	$ 45,720
Net Income			1,485			1,485
Change in Net Unrealized Depreciation of Investment Securities					(454)	(454)
Balance - March 31, 1994	$ 42	$ 30,648	$ 16,838	$ (179)	$ (598)	$ 46,751

</TABLE>

MERCHANTS BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
UNAUDITED
(Dollar Amounts in Thousands)

For the Three Months Ended March 31,	1994	1993
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income (Loss)	$ 1,438	$ (470)
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Provision for Possible Loan Losses	1,250	5,008
Provision for Depreciation and Amortization	512	407
Prepaid income taxes	226	(1,375)
Imputed Gain on Sale of Loans	(65)	(84)
Net Gains on Sales of Investment Securities	0	1,275
Net Gains on Sales of Loans and Leases	(39)	(14)
Equity in Losses Real Estate Ltd Partnerships	223	232
(Increase) Decrease in Interest Receivable	(410)	1,186
Increase in Interest Payable	941	547
(Increase) Decrease in Other Assets	(1,072)	813
Increase (Decrease) in Other Liabilities	485	2,210
Net Cash Provided by Operating Activities	$ 3,489	$ 9,735
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from Sales of Investment Securities	$ 0	$ 144,509
Proceeds from Sales of Loans and Leases	18,167	17,295
Purchases of Investment Securities	0	(147,890)
Loans Originated, Net of Principal Repayments	11,936	(12,075)
Purchases of Premises and Equipment	(480)	(38)
Decrease in Net Investment - Leases	24	214
Net Cash Provided by Investing Activities	$ 29,647	$ 2,015
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net Decrease in Deposits	$ (28,189)	$ (38,283)
Net Increase in Short-term Borrowing	1,457	16,394
Principal Payments on Long-Term Debt	(1)	(1)
Acquisition of Treasury Stock	0	(132)
Cash Dividends Paid	0	(843)
Sale of Treasury Stock	0	212
Net Cash Used in Financing Activities	$ (26,733)	$ (22,653)
Decrease in Cash and Cash Equivalents	6,403	(10,903)
Cash and Cash Equivalents at January 1	30,588	36,744
Cash and Cash Equivalents at March 31	$ 36,991	$ 25,841
Total Interest Payments	$ 4,473	$ 4,233
Total Income Tax Payments	$ 0	$ 0

NOTES TO FINANCIAL STATEMENTS:

NOTE 1: CURRENT OPERATING ENVIRONMENT AND REGULATORY MATTERS

As of March31, 1993, the Federal DepositInsurance Corporation (the FDIC) and the State of Vermont Department of Banking, Insurance and Securities (the Commissioner) conducted a joint field examination of the Bank. As a result of this examination, the Bank entered into a Memorandum of Understanding (MOU) with the FDIC and the Commissioner on October 29, 1993. Under the terms of the MOU, the Bank is required to, among other things, maintain a leverage capital ratio of at least 5.5%, revise certain operating policies, enhance certain loan review procedures, refrain from declaring dividends and correct certain technical exceptions and violations of applicable regulations. The dividend limitation includes dividends paid by the Bank to the Company. The Company services senior subordinated debt, which requires semiannual interest payments and an annual principal payment of $2.4 million through 1996. The MOU permits the repayment of certain advances totaling approximately $3.3 million which were outstanding at March 31, 1994. The repayment of such advances, together with the Company's cash on hand at March 31, 1994 is sufficient to service the senior debt until May, 1995. The Bank was also directed by the FDIC to increase the reserve for possible loan losses by approximately $12 million and to charge off loans totaling approximately $8 million at the conclusion of the examination in June, 1993. Based on subsequent discussions with the FDIC and additional review of certain credit information in connection with the examination, management decided to amend the Bank's call reports and Forms 10-Q for the quarters ended March 31, 1993 and June 30, 1993 to allocate $3 million of the additional provision for possible loan losses originally recorded in the quarter ended June 30, 1993 to the quarter ended March 31, 1993.

As of February 18, 1994, the Company and the Federal Reserve Bank of Boston (the Federal Reserve) entered into an agreement requiring the Company to submit to the Federal Reserve, among other things, a capital plan, a dividend policy, a debt service plan and a management assessment. In addition, the Company may not declare or pay a dividend without the approval of the Federal Reserve.

Managementbelieves the Bank andthe Company are in substantial compliance with the provisions of the MOU and the written agreement with the Federal Reserve as of March 31, 1994.

OnMarch 31, 1994, the FDIC and the Commissioner completed the field work related to their most recent examination of the bank as of December 31, 1993. Although the FDIC and the Commissioner have not yet issued the formal examination report, management believes that the results of the examination will not have a significant impact on the Company's financial statements.

Failure to maintainthe minimum leverage capital ratio of 5.5% included in the MOU or compliance with other provisions of the MOU, or the agreement with the Federal Reserve, could subject the Bank or the Company to additional actions by the regulatory authorities.

NOTE 2: ACQUISITION

OnJune 4, 1993, the Bank purchased certain assets and assumed the deposits and certain other liabilities of the New First National Bank of Vermont (NFNBV) from the FDIC. NFNBV was a three bank holding company conducting banking activities primarily in central and northern Vermont. NFNBV had been taken over by the FDIC in January 1993. The acquisition involved an assumption of net deposits and liabilities which resulted in the Bank receiving a cash payment from the FDIC of approximately $5.7 million. The Bank subsequently acquired certain NFNBV property and equipment from the FDIC for approximately $1.5 million which was paid to the FDIC in April, 1994. The acquisition was accounted for using the purchase method of accounting and accordingly, the acquired assets and liabilities were recorded at their estimated fair market values at the date of acquisition. The operating results related to NFNBV are included in the Company's statement of operations since the date of the acquisition.

Included in the purchaseprice allocation is the establishment of an allowance for possible loan losses of $2 million and a core deposit intangible of approximately $4.5 million, being amortized over 15 years using the straight line method. The fair market value of assets acquired and liabilities assumed was:

(Dollar amounts in thousands)

Cash	$ 5,290
Federal Funds Sold	6,075
Investment Securities	4,118
Loans	23,909
Segregated Assets	154,537
Allowance for Possible Loan Losses	(2,000)
Premises and Equipment	1,509
Other Assets	1,523
Core Deposit Intangible	4,478
Deposits	(203,031)
Other Liabilities	(537)
Cash Payment From the FDIC, Net of Settlement Amount for Premises	$ 4,129

Summarized below are the results of operation on an unaudited pro forma basis, as if NFNBV had been acquired on January 1, 1992, based on the Company's audited historical results of operations for 1992 and NFNBV's unaudited historical results of operations for the period October 1, 1991 to September 30, 1992, giving effect to certain pro forma adjustments. This information does not purport to be indicative of the results of operations that would have occurred had the purchase been made on January 1, 1992 or of future results of operations of the combined companies. No pro forma information is presented for the period January 1, 1993 to the date of the acquisition because no accurate financial information is available relative to NFNBV's operations from the FDIC.

(In thousands except per share data)	Pro Forma 1992
Net Interest Income	$36,185
Net Income	7,463
Earnings Per Share	1.83

In computing the pro forma net income, adjustments were recognized to give effect to a reduced provision for possible loan losses and other real estate owned (OREO) expenses, resulting from loss sharing and the transfer of problem loans and

OREO to the FDIC prior to acquisition, amortization of the core deposit intangible and reduced operating expenses relating to regulatory actions.

Under the terms of the acquisition, the Company will receive financial assistance (loss sharing) with respect to certain acquired loans charged-off by the Company during the three years subsequent to the acquisition. The FDIc will reimburse the Company, on a quarterly basis, 80% of net charge-offs and certain expenses related to loans subject to loss sharing up to cumulative losses aggregating $41.1 million, after which the reimbursement rate will be 95% of net charge-offs on the loans. Acquired loans subject to loss sharing are classified as Segregated Assets in the accompanying consolidated balance sheets.

In addition, under the terms of the acquisition approval received from the State of Vermont Department of Banking, Insurance and Securities, the Bank is required to, among other things, maintain Tier 1 leverage capital at the higher of 5.5% or the minimum regulatory leverage capital required by the FDIC, and to refrain from paying dividends from the Bank to the Company if the Bank's capital is below the minimum capital requirement. The Bank and the Company were in compliance with all the terms of the acquisition approval agreement with the State of Vermont during 1993 and throughout the first quarter of 1994.

NOTE 3: INVESTMENTS

Investments in debt securitiesare classified as available for sale as of December 31, 1993 and March 31, 1994 and as held for sale as of March 31, 1993. Marketable equity securities are classified as available for sale at March 31, 1994 and December 31, 1993 and are stated at their estimated fair value. Marketable equity securities were carried at the lower of cost or market at March 31, 1993. The amortized cost and estimated fair values are as follows:

(In Thousands)

	March 31, 1994		December 31, 1993		March 31, 1993	
	Amortized Cost	Market Value	Amortized Cost	Market Value	Amortized Cost	Market Value
US Gov't	$ 84,859	$ 83,697	$ 85,945	$ 85,506	$109,248	$109,300
Other	1,231	1,487	1,231	1,452	1,226	1,314
Total	$ 86,090	$ 85,184	$ 87,179	$ 86,958	$114,591	$110,614

MERCHANTS BANCSHARES, INC

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL

CONDITION AND RESULTS OF OPERATIONS

All adjustments necessary for a fair statement of the three months ended March 31, 1994 and 1993 have been included in the financial statements. The information was prepared from the books of Merchants Bancshares, Inc. and its subsidiaries, the Merchants Bank and Merchants Properties, Inc., without audit.

In the ordinary course of business, the Merchants Bank makes commitments for possible future extensions of credit. On March 31, 1994, the Bank was obligated for $11,542,200 of standby letters of credit. No losses are anticipated in connection with these commitments.

RESULTS OF OPERATIONS

1. ANALYSIS OF QUARTERLY STATEMENTS OF OPERATIONS

Net income for the first quarter of 1994 was $1,437,973 compared to a net loss a year earlier of $469,510. On a per share basis, the net income represented $.34 per share compared to a loss of $.11 for 1993. The primary reason for the loss during 1993 was the carryback of $3,000,000 of an approximate $12,000,000 additional provision for possible loan losses recognized on June 30, 1993. Had that additional provision not been recognized, net income for the period would have been approximately $1,510,500, however, the Company recognized $867,000 in securities gains (after taxes) during that quarter. The net interest income before the provision for possible loan losses aggregated $6.9 million in 1994 compared to $5.3 million a year earlier, due in part to the effects of the acquisition of NFNBV (see footnote 2) and also due to a slight increase in interest rates during the first quarter.

The provision for possible loan losses totalled $1.25 million for the first quarter of 1994 compared to $5.01 million for the first quarter of 1993, due to larger reserve balances during 1994 which were built up during the previous year and a slowly improving economic environment.

During the quarter endedMarch 31, 1994, theCompany recognized a loss on the sale of an investment of $19,000.

Total non-interest expenses are up approximately 23% from the same quarter a year ago due to the acquisition of NFNBV and the resulting addition of 11 branches and nearly 100 employees. Expenses of other real estate owned are down 45% from the previous year.

The Company recognized $240,000 in low income housing tax credits representing the amount earned during the first quarters of 1994 and 1993.

The schedules on the following pages analyze interest and overhead management in relation to total average assets and the yield analysis for the periods reported

MERCHANTS BANCSHARES, INC.
INTEREST MANAGEMENT AND OPERATING EXPENSE ANALYSIS
(IN THOUSANDS - TAXABLE EQUIVALENT BASIS)

		RESTATED
QUARTER ENDED	QUARTER ENDED	QUARTER ENDED

Total Average Assets	03/31/94 $721,409		12/31/93 $755,667		03/31/93 $612,887	
	AMOUNT	% OF ASSETS	AMOUNT	% OF ASSETS	AMOUNT	% OF ASSETS
INTEREST MANAGEMENT						
Interest Income (T.E.)	$12,388	6.87%	$12,915	6.84%	$10,257	6.69%
Interest Expense	5,414	3.00%	5,786	3.06%	4,779	3.12%
Net Int before Prov (T.E.)	$6,974	3.87%	$7,129	3.77%	$5,478	3.58%
Prov for Loan Losses	1,250	0.69%	6,750	3.57%	5,008	3.27%
Net Int. Income (T.E.)	$5,724	3.17%	$379	0.20%	$470	0.31%
NET OPERATING EXPENSE						
Non-Interest Expense:						
Personnel	$3,229	1.79%	$3,541	1.87%	$2,566	1.67%
Occupancy	694	0.38%	565	0.30%	448	0.29%
Equipment	466	0.26%	571	0.30%	404	0.26%
Other	2,717	1.51%	2,976	1.58%	2,338	1.53%
Total	$7,106	3.94%	$7,653	4.05%	$5,756	3.76%
Less Non-Interest Income:						
Fees on Loans	$1,030	0.57%	$1,470	0.78%	$933	0.61%
Service Charges on Dep	891	0.49%	1,026	0.54%	747	0.49%
Other	1,213	0.67%	1,463	0.77%	2,475	1.62%
Total	$3,134	1.74%	$3,959	2.10%	$4,155	2.71%
Net Operating Expense	$3,972	2.20%	$3,694	1.96%	$1,601	1.04%
SUMMARY						
Net Interest Income	$5,724	3.17%	$379	0.20%	$470	0.31%
Less Net Operating Exp.	$3,972	2.20%	$3,694	1.96%	$1,601	1.04%
Profit Before Taxes	$1,752	0.97%	($3,315)	-1.75%	($1,131)	-0.74%
NET PROFIT (LOSS)	$1,438	0.80%	($2,212)	-1.17%	($470)	-0.31%

MERCHANTS BANCSHARES, INC
YIELD ANALYSIS
(UNAUDITED)
(Dollar amounts in thousands)

Fully Taxable Equivalent Includes Fees on Loans	THREE MONTHS ENDED MARCH 31, 1994 AVERAGE BALANCE	AVERAGE RATE	MARCH 31, 1993 AVERAGE BALANCE	AVERAGE RATE
INTEREST EARNING ASSETS				
Investments	$ 92,982	3.98%	$109,541	4.10%
Loans	548,515	9.07%	412,634	9.75%
Federal Funds Sold	7,781	3.17%	1,769	2.83%
Total Interest Earning Assets	$649,278	8.27%	$523,944	8.54%
INTEREST BEARING LIABILITIES				
Savings, NOW and Money Market Deposits	$320,655	2.49%	$279,022	2.83%
Time Deposits	196,750	4.51%	125,147	4.94%
Total Savings and Time Deposits	517,405	3.26%	404,169	3.48%
Federal Funds Purchased and Securities Sold Under Agreements to Repurchase	1,962	3.09%	7,517	3.29%
Other Borrowed Funds	69,717	6.96%	66,648	7.21%
Total Interest Bearing Liabilities	589,084	3.69%	478,334	4.00%
Other Liabilities and Stockholders' Equity (Net of Non-Interest Earning Assets)	60,194		45,609	
Total Liabilities and Stockholders' Equity (Net of Non-Interest Earning Assets)	$649,278		$523,943	
Rate Spread		4.57%		4.55%
Net Yield on Interest Earning Assets		4.91%		4.89%

MERCHANTS BANCSHARES, INC.

BALANCE SHEET:

Average assets decreased $34 million during the quarter ended March 31, 1994 from the December 31, 1993 level and increased $109 million from the same date a year ago. Virtually all of the growth from the previous year is due to the acquisition of NFNBV. Period end investment balances remained approximately level during the quarter, but have decreased $25 million since March 31, 1993 as the Bank sold US Treasury issues during the fall for liquidity purposes. Gross loans, including segregated assets, are down $35 million during the quarter, and have increased $113 million from the same date a year ago, again due to the NFNBV transaction.

Short termborrowings decreased$8.4 million overthe last 12 months, but are up marginally ($1.4 million) since December. Effective January 1, 1994, the Bank no longer issues overninght repurchase agreements to its cash management customers, rather, this product is handled by the trust company subsidiary on an off-balance sheet basis. Additionally, the Bank borrowed $12 million on a short-term basis from the Federal Home Loan Bank of Boston. This borrowing replaced short-term borrowings which were paid off in December, 1993. Deposits have decreased $28 million during the quarter, but are up $125 million from the same date a year ago due to the NFNBV acquisition.

Shareholders' equity increased $1.03 million during the quarter, due to net income earned less an adjustment of $454,000 to write the investment portfolio down to the market value at March 31, 1994. Tier 1 leverage capital at the Company level was 6.0%, 5.7% and 7.6% at March 31, 1994, December 31, 1993 and March 31, 1993, respecively.

LOAN QUALITY AND RESERVES FOR POSSIBLE LOAN LOSSES (RPLL)

Merchants Bancshares, Inc. reviews the adequacy of the RPLL at least quarterly. The method used in determining the amount of the RPLL is not based upon maintaining a specific percentage of RPLL to total loans or total non-performing assets, but rather a comprehensive analytical process of assessing the credit risk inherent in the loan portfolio. This assessment incorporates a broad range of factors which are indicative of both general and specific credit risk, as well as a consistent methodology for quantifying probable credit losses. As part of the Merchants Bancshares, Inc.'s analysis of specific credit risk, a detailed and extensive review is done on larger credits and problematic credits identified on the watched asset list, non-performing asset listings, and credit rating reports.

The more significant factors considered in the evaluation of the adequacy of the RPLL based on the analysis of general and specific credit risk include:

Status of non-performing loans

Status of adversely-classified credits

Historic charge-off experience by major loan category

Size and composition of the loan portfolio

Concentrations of credit risk

Renewals and extensions

Current local and general economic conditions and trends

Loan growth trends in the portfolio

Off balance sheet credit risk relative to commitments to lend

Overall, management maintains the RPLL at a level deemed to be adequate, in light of historical, current and prospective factors, to reflect the level of risk in the loan portfolio.

NON-PERFORMING ASSETS

The following tables summarize the Bank's non-performing assets. The first table shows balances of nonperforming assets at March 31, 1994 covered by a loss sharing arrangement related to the acquisition of the NFNBV On June 4, 1993. The terms of the Purchase and Assumption Agreement related to the purchase of NFNBV require that the FDIC pay the Bank 80% of net charge-offs up to $41,100,000 on any loans that qualify as loss sharing loans for a period of three years from the date of the acquisition. If net charge offs on qualifying loss sharing loans exceed $41,100,000 during the three year period, the FDIC is required to pay 95% of such qualifying charge offs. This arrangement significantly reduces the exposure that the Bank faces on NPAs that are covered by loss sharing. As of March 31, 1994 NPAs covered by loss sharing totaled $14,782,000. The aggregate amount of loans covered by the loss sharing arrangement at March 31, 1994 totaled $121,773,000.

	Regular Assets	Loss Sharing Assets	Total
Nonaccrual Loans	$28,377,070	$14,713,513	$43,090,583
Restructured Loans	$1,846,806	$67,976	$1,914,782
Loans Past Due 90 Days or more and Still Accruing	$109,464	$17	$109,481
Other Real Estate Owned	$15,214,029	$0	$15,214,029
Total:	$45,547,369	$14,781,506	$60,328,875

The second table shows nonperforming assets as of year end 1993 through March 31, 1994 (in thousands):

	March 31, 1994	December 31, 1993
Nonaccrual Loans	$43,091	$47,069
Loans Past Due 90 Days or More and Still Accruing	109	715
Restructured Loans	1,915	2,841
Total Non-Performing Loans	45,115	50,625
Other Real Estate Owned	15,214	13,674

Total Non-Performing Assets	$60,329	$64,299
	=======	=======
Percentage of Non-Performing Loans to Total Loans	8.40%	8.83%
Percentage of Non-Performing Assets to Total Loans plus Other Real Estate Owned	10.92%	10.95%
Percentage of RPLL to Total Loans	3.10%	3.50%
Percentage of RPLL to NPL	36.87%	39.62%
Percentage of RPLL to NPA	27.59%	31.20%

Nonperforming Loans (NPL) declined by $5,510,000 from December 31, 1993 to March 31, 1994. Non-performing Assets (NPA) declined by $3,970,000 during the same period. Net charge offs of $4,668,000 were primarily responsible for the decline in NPAs and NPLs. The RPLL declined by $3,418,000 from December 31, 1993 to March 31, 1994 as the result of the aforementioned charge offs. A discussion of some of the borrowing relationships that led to the charge offs is presented under "Discussion of Events Affecting NPAs" section.

As previously mentioned, the loss sharing arrangement reduces the exposure the Company faces on NPLs. Adjusting the NPL total for the 80% FDIC coverage on qualifying loss sharing loans results in significantly larger RPLL to NPL ratios. The loss sharing, adjusted ratios of RPLL to NPLs at December 31, 1993 and March 31, 1994 were 54.7% and 50% respectively. This level of coverage is considered adequate based upon management's evaluation of known and inherent risks in the portfolio. Approximately 85% of the NPLs are secured by real estate which significantly reduces the Company's exposure to loss. Based upon the combination of loss sharing coverage of some of the NPLs, the secured nature of a significant portion of the NPLs, and management's assessment of the current and prospective level of risk in the loan portfolio, the balance of the RPLL is considered adequate at March 31, 1994.

DISCUSSION OF EVENTS AFFECTING NPAs:

Significant events affecting the categories of NPAs are discussed below:

Nonaccrual Loans:

Nonaccrual loans declined $3,978,000 during the first quarter of 1994 due primarily to charge offs. Two relationships, one involving construction financing on residential development and another a vending machine company accounted for the largest charge-offs - $1,827,000 and $599,000 respectively.

Approximately $1,150,000 consisting of five properties migrated from Nonaccrual to OREO during the quarter.

Restructured Loans:

Restructured Loans declined from $2,841,000 at December 31, 1993 to $1,915,000 at March 31, 1994 as the result of a migration to Nonaccrual.

Other Real Estate Owned and Insubstance Foreclosure:

The increase in OREO and ISF of $1,540,000 from December 31, 1993 to March 31, 1994 results from various activity. ISF decreased $2,009,000 during the first quarter as the result of the transfer of title of a residential development to the Bank and a sale of a property by its owner with subsequent paydown to the Bank of $275,000.

Significant additions in OREO included a vacant commercial building lot for $775,000, as well as, the aforementioned ISF transfer. Approximately $400,000 was reclassified from bank premises to OREO and resulted from buildings no longer used for banking purposes related to the NFNBV acquisition.

OREO includes specific assets to which legal title has been taken as the result of transactions related to real estate loans.

The criteria for designation of loans as in-substance foreclosure are that the debtor has little or no equity in the collateral, proceeds for repayment of the loan will come only from the operation or sale of the collateral, and the debtor has formally or effectively abandoned control of the assets or is not expected to rebuild equity in the collateral. The collateral underlying these loans is recorded at the lower of cost or market value less estimated selling costs.

The total amount of Other Real Estate Owned and In-Substance Foreclosure at December 31, 1993 and March 31, 1994 is as follows:

	March 31, 1994	December 31, 1993
Other Real Estate Owned	$9,784	$6,235
In-Substance Foreclosure	$5,430	$7,439
	------	------
Total	$15,214	$13,674
	=======	=======

CAPITAL RESOURCES

As a statechartered bank, theBank's primary regulatoris the FDIC. Accordingly, the Bank is affected by the Financial Institutions Reform, Recovery and Enforcement act of 1989

(FIRREA) which was enacted in August 1989 and the Federal Deposit Insurance Corporation Improvement Act (FDICIA) enacted in December 1992.

TheBank issubject toregulatory capitalregulations which provide for two capital requirements - a leverage requirement and a risk-based capital requirement. The leverage requirement provides for a minimum "core" capital consisting primarily of common stockholders' equity of 3% of total adjusted assets for those institutions with the most favorable composite regulatory rating. Under the terms of the MOU, the Bank is required to maintain a leverage capital ratio of at lease 5.5% and refrain from declaring dividends without the prior approval of the FDIC. The Company is also required to refrain from declaring dividends without the Federal Reserve's prior permission. The risk-based capital requirement of FIRREA provides for minimum capital levels based on the risk weighted assets of the Bank. The guidelines require banks to meet a minimum Tier 1 risk-based capital ratio of 4.0% and a total risk based capital ratio of 8.0% as of March 31, 1994. As of March 31, 1994, all the Bank's capital measurements exceeded regulatory minimums.

MERCHANTS BANCSHARES, INC.

PART II - OTHER INFORMATION

Item 1 - Legal Proceedings

The Merchants Bank, a wholly-owned subsidiary, is involved in various legal proceedings arising in the normal course of business. Management believes that the resolution of these matters will not have a materially adverse effect on the consolidated financial statements.

Item 2 - Changes in Securities - NONE

Item 3 - Defaults upon Senior Securities - NONE

Item 4 - Submission of Matters to a Vote of Security Holders - NONE

Item 5 - Other Issues - NONE

Item 6 - Exhibits and Reports on Form 8-K - NONE

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.

Merchants Bancshares, Inc.

\S DUDLEY H DAVIS

Dudley H. Davis, President

\S EDWARD W. HAASE

Edward W. Haase, Treasurer

Date: MAY 12, 1994