

# **FIRST MERCHANTS CORPORATION**

## **AUDIT COMMITTEE CHARTER**

### **STATEMENT OF PURPOSE**

The primary function of the Audit Committee (the “Committee”) will be to assist the Board in fulfilling its monitoring and oversight of:

- The integrity of First Merchants Corporation’s financial statements;
- The Corporation’s system of internal controls, including disclosure controls and procedures, and internal controls over financial reporting;
- The Corporation's compliance with legal and regulatory requirements;
- The Corporation’s independent auditor’s qualifications and independence;
- The performance of the Corporation's independent auditors and internal audit function (which includes the loan review function);
- The Corporation's Code of Conduct process including compliance with its ethical requirements and promotion of ethical business practices;

### **COMMITTEE AUTHORITY**

1. The Committee has the power to conduct or authorize investigations into matters within the Committee’s scope of responsibilities. The Committee is authorized to retain independent counsel, accountants or other advisors as it deems necessary to carry out its duties.
2. The Committee shall also have the authority to meet with and seek any information it requires from employees, officers, directors, or external parties.
3. The Committee will have sole authority (and recommend that the Board submit for shareholder ratification) for the appointment, compensation, retention and oversight of the work of the Corporation’s independent auditors (including resolution of disagreements between management and the independent auditors regarding financial reporting) for the purpose of preparing or issuing an audit report or performing other audit, review or attestation services for the Corporation. The Committee will consult with the Board of Directors and take into consideration the opinions of internal auditors and management in making such decisions related to the independent auditors, but will not delegate these responsibilities. The Committee will establish an arrangement pursuant to which the independent auditors report directly to the Committee. The independent auditors will be accountable to the Board through the Committee.
4. The Committee will have the sole authority to pre-approve all audit engagement fees and terms, as well as permissible non-audit engagements of the independent auditors. Authority to pre-approve non-audit engagements provided by the independent auditors may be assigned to the Chairman of the Audit Committee with communication to, and ratification of, the full Committee at the subsequent meeting.

## COMMITTEE RESPONSIBILITIES

The Audit Committee's primary duties and responsibilities are to:

- Provide an open independent avenue of communication among management, the internal auditors, the independent auditor, and the Board of Directors.
- Serve as an independent and objective party to review the Corporation's financial reporting process and internal control system.
- Review and appraise the qualifications and audit efforts of the Corporation's independent auditors and internal auditing department including the loan review function.
- The Committee will have the sole authority to appoint, replace, reassign or dismiss the Chief Audit Executive of the Corporation's internal audit department, who shall report directly to the Committee (and to the Chief Operating Officer for administrative purposes).
- Oversee the reliability and integrity of the Corporation's accounting policies and financial reporting and disclosure practices.
- Monitoring of the Company's Contributions and Sponsorship policy.
- Serve as an independent and objective party to assess the Corporation's risk management practices, and the steps management has taken to identify, assess, monitor, control and reports on its risk exposures, including monitoring of adherence to established risk limits, and review internal audit's opinion on the adequacy of risk management processes.
- Monitor and control risks relating to financial reporting and ethics and integrity.
- Conduct a self-assessment of the Committee's effectiveness at least every two years.

To the extent permitted by applicable regulations and listing requirements, the Committee may obtain assistance from management or staff in accomplishing these responsibilities. The company will provide appropriate funding, as determined by the Audit Committee, for compensation to the independent auditor, internal audit, to any advisors that the Audit Committee chooses to engage, and for payment of ordinary administrative expenses of the Audit Committee that are necessary or appropriate in carrying out its duties.

Additional responsibilities of the Audit Committee include:

### General

1. The Committee will establish a "Meeting Planner" to ensure that all appropriate functions of the Committee are completed timely;
2. At least annually, the Audit Committee will review and reassess the adequacy of this Charter, and will recommend any proposed changes to the Board for approval;
3. The Committee will report its activities to the Board of Directors on a regular basis so that the Board is kept fully informed of its activities. The Committee will perform all duties determined by the Board.
4. The Audit Committee will prepare the report of the Committee required by the rules of the Securities and Exchange Commission to be included in the Corporation's annual proxy statement;

## Oversight and Engagement of Independent Auditors

5. The Committee will review the qualifications, performance and independence of the independent auditor and remove the independent auditor if circumstances warrant. The Audit Committee should assess, at least annually, the independence of the independent auditor, including that of the independent auditor's lead partner, based on a review of a written report by the independent auditor. The written report will include descriptions of:
  - a. the independent auditor's internal quality control procedures;
  - b. any material issues raised by the most recent internal quality control review, or peer review, or by any inquiry or investigation by governmental or professional authorities (including PCAOB inspection results) in the preceding five years respecting one or more independent audits carried out by the firm;
  - c. any steps taken to deal with such issues;
  - d. all relationships between the independent auditor and the Corporation; and
  - e. any other relationships that may adversely affect the independence of the auditor;
6. The Committee will assure the regular rotation of the lead and concurring audit partners as required by law, or more frequently as determined by the Committee in its sole discretion. The Committee should also consider whether the Corporation is obtaining high quality audit services, whether the cost for such services is commensurate with the services received, and whether the rotation of the audit to another accounting firm would be beneficial.
7. The Committee will review and discuss with the independent auditors the audit planning and procedures, including the scope, fees, staffing and timing of the audit; review and discuss the results of the audit exam and management letters, and any reports of the independent auditor with respect to any reporting period;
8. The Committee will review with the independent auditor any problems or difficulties and management's response;
9. The Committee will review and discuss with the independent auditors:
  - a. accounting policies and practices, financial reporting issues and judgments that may be viewed as critical;
  - b. analyses prepared by management and/or the independent auditor over significant financial reporting issues affecting the preparation of financial statements, including analyses of the effects of alternative GAAP methods, and significant estimates and judgements made in the preparation of the financial statements;
  - c. any significant changes in the Corporation's accounting and auditing policies and provide approval, when appropriate;
  - d. financial statement impact of any significant, complex and/or unusual transactions;
  - e. any material financial or non-financial arrangements of the Corporation which do not appear on the financial statements of the Corporation;
  - f. Critical audit matters as defined by the PCAOB
  - g. Reports and communications with audit committees required by the standards of the PCAOB

### Financial reporting processes, accounting policies, and internal control structure

The Committee will review and discuss the following with management, the Chief Audit Executive and the independent auditor:

10. The annual audited financial statements, including disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations," and recommend to the Board whether the audited financial statements should be included in the Corporation's Annual Report on Form 10-K; the Corporation's quarterly financial statements, prior to the filing of its Form 10-Q as well as all internal control reports (or summaries thereof). Review other relevant reports or financial information submitted by the Corporation to any governmental body or the public, including management certifications as required and relevant reports rendered by the independent auditor (or summaries thereof);
11. Policies and practices regarding earnings press releases, as well as financial information and earnings guidance given to analysts and ratings agencies, giving attention to any use of "pro forma", "adjusted" or "non-GAAP financial measures" or information. Such discussions may be in general terms (i.e. discussion of the types of information to be disclosed and the type of presentations to be made);
12. Reports or other communications prepared by management, internal audit, external auditors, regulatory agencies, or other external parties engaged to assess the adequacy of the Corporation's risk assessment and risk management processes, policies and guidelines, including any significant weaknesses in the system of internal control for detecting and reporting financial errors, defalcations, legal violations, and noncompliance with the Corporation's Code of Conduct;
13. Review any disclosures from the CEO and CFO made in connection with the certification of the company's quarterly and annual reports filed with the SEC of any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal controls;
14. Management's responses indicating action taken to address any weaknesses or deficiencies identified;
15. Regulatory, accounting and financial reporting proposals and/or initiatives in order to determine the impact on the Corporation's financial statements
16. Any accounting adjustments that were noted or proposed by the auditor but were "passed" (as immaterial or otherwise); review any "management" or "internal control" letters issued, or proposed to be issued, by the audit firm to the Corporation
17. Discussions with the independent auditor's national office concerning auditing or accounting issues presented by the engagement;
18. Reports from the independent auditor pursuant to Section 10A (b) of the Securities Exchange Act required when the independent auditor detects or otherwise becomes aware of information indicating that an illegal act (whether or not perceived to have a material effect on the financial statements of the Corporation) has or may have occurred.

19. Any correspondence or reports from regulators or governmental agencies, management, the internal audit department and employee complaints which raise material issues regarding the Corporation's financial statements or accounting policies or violations of the code of conduct

#### Internal Audit

20. The Committee will annually review and approve the Senior Internal Auditing Executive's performance evaluation and compensation. The Committee may exercise such authority by majority vote of the Committee. The internal audit function will be accountable to the Board through the Committee.
21. The Committee will oversee the internal audit function of the Company which is responsible for conducting audits of First Merchants Corporation and all subsidiaries. The Committee will annually approve the Internal Audit Charter which provides internal audit the authority to examine all records and issue independent reports in order to provide objectivity to the internal audit function.
22. The Committee will review with the Chief Audit Executive and the independent auditors the coordination of their audit efforts to assure completeness of coverage, reduction of redundant efforts and effective use of audit resources;
23. Discuss with the Chief Audit Executive the internal audit department's budget, staffing, the annual risk assessment and resulting audit and loan review plans and then quarterly, any recommended changes in the plans scope;
24. Periodically review, with the senior internal audit executive, any significant difficulties, disagreements with management, or scope restrictions encountered in the course of the function's work;
25. Review the regular internal reports to management (or summaries thereof) prepared by the internal audit function, as well as management's response.
26. Review reports on loan review results prepared by the Chief Loan Review Officer.
27. Review and discuss with the Chief Audit Executive any quality control assessments completed on the internal audit department; perform an annual assessment of the Internal Audit Department giving consideration to the rules and expectations of regulators and professional standards established for internal auditors
28. Review and approve, at least annually, the risk assessment and annual internal audit plan, prepared by internal audit.

#### Other Responsibilities

29. The Audit Committee will establish procedures for :
  - a. the receipt, retention, and treatment of complaints received by the Corporation regarding accounting, internal accounting controls, or auditing matters;
  - b. the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters in accordance with the Ethics &

- Integrity Policy; and
    - c. the reporting and resolution of illegal acts and Code of Conduct matters.
- 30. Review and discuss with management and the independent auditor:
  - a. any transactions or dealings with parties related to the Corporation which transactions are significant in size or involve terms or other aspects that differ from those that would likely be negotiated with independent parties and which are relevant to an understanding of the Corporation's financial statements; and
  - b. the business rationale for significant related party transactions and whether they have been properly disclosed;
- 31. Management's report concerning affiliated party transactions and any identified or suspected fraud or illegal acts regardless of the dollar value or position level;
- 32. Review and approve the hiring of employees or former employees from the independent auditors for any Senior Financial Officer position as defined in the "Code of Ethics for First Merchants Corporation Financial Management".;
- 33. Review any material pending legal proceedings involving the Corporation and other contingent liabilities; discuss with the Corporation's in-house Counsel legal matters that may have a material impact on the financial statements or the Corporation's compliance policies;
- 34. Review procedures established by the Corporation that monitor the Corporation's compliance with its loan and indenture covenants and restrictions.
- 35. The Committee is responsible for ensuring the enforcement of the Code of Conduct and for interpreting its provisions.

## **SELECTION AND COMPOSITION**

The Committee will be comprised of three or more Directors as determined by the Board. All members of the Committee will be independent directors as determined by the Board of Directors in accordance with the guidelines of the Securities and Exchange Commission, NASDAQ and other applicable regulations.

The members of the Committee and the Committee chairperson will be appointed by the Board and may be removed by the Board. The members of the Committee will be approved annually by the Board of Directors.

All members of the Committee will be "financially literate" as interpreted by the Board of Directors in compliance with the rules of NASDAQ. At least one member of the Committee must be an audit committee financial expert; as defined by the Securities and Exchange Commission.

No member of the Audit Committee may serve on the audit committees of more than three public companies unless the Board determines that such simultaneous service would not impair the ability of such member to effectively serve on the Corporation's Audit Committee.

The duties and responsibilities of Audit Committee members contained herein will be in addition to those duties otherwise required for members of the Board.

## **MEETINGS**

The Audit Committee will meet at least four times annually, or more often as circumstances dictate. The Committee may ask members of management or others to attend the meeting and is authorized to receive any and all pertinent information from management as determined by the Committee. Briefing materials will be provided to the Committee as far in advance of meetings as practicable. The Committee will meet with the independent auditors, management, and internal audit in separate executive sessions to discuss any matters that the Committee or each of these groups believes should be discussed privately.

In addition, the Committee, or at least the Chairperson, will discuss with the independent auditors, the Chief Audit Executive and management any matters required to be discussed under the standards of the Public Company Accounting Oversight Board (PCAOB), which are identified in connection with the auditor's audit of the annual financial statements and reviews of the quarterly financial statements. In addition, the Committee will meet with the independent auditor and management to discuss the annual audited financial statements and quarterly financial statements.

## **LIMITATION OF AUDIT COMMITTEE'S ROLE**

It is management's responsibility to maintain appropriate systems for accounting and internal controls over financial reporting, and the independent auditor's responsibility to plan and carry out a proper audit. Specifically, management is responsible for: (1) the preparation, presentation and integrity of the Corporation's financial statements; (2) the maintenance of appropriate accounting and financial reporting principles and policies; and (3) the maintenance of internal controls over financial reporting and other procedures designed to assure compliance with accounting standards and related laws and regulations. The independent auditors are responsible for planning and carrying out an audit consistent with applicable legal and professional standards and the terms of their engagement letter. Nothing in this Charter shall be construed to reduce the responsibilities or liabilities of the Corporation's service providers, including the independent auditors.

Although the Committee is expected to take a detached and questioning approach to the matters that come before it, the review of the Corporation's financial statements by the Committee is not an audit, nor does the Committee's review substitute for the responsibilities of the Corporation's management for preparing, or the independent auditors for auditing, the financial statements. Members of the Committee are not full-time employees of the Corporation and, in serving the Committee, are not, and do not hold themselves out to be, acting as accountants or auditors. As such, it is not the duty or responsibility of the Committee or its members to conduct field work or other types of auditing or accounting reviews or procedures.

In discharging their duties, members of the Committee are entitled to rely on information, opinions, reports or statement, including financial statements and other financial data, if prepared or presented by: (1) one or more officers of the Corporation whom the director reasonably believes to be reliable and competent in the matters presented; (2) legal counsel, the independent auditors, or others persons as to matters the director reasonably believes are within the person's professional or expert competence; or (3) a committee of the Board of which the director is not a member.

## **CONSISTENCY WITH THE CORPORATION**

To the extent that any provision or section of this Charter may be inconsistent with any article, provision or section of the Articles of Incorporation, the Bylaws of the Corporation, or any applicable law or regulation, the Articles or the Bylaws or the law or regulation, as appropriate, will fully control.