

FORM 10-Q
SECURITIES AND EXCHANGE COMMISSION
 WASHINGTON, D.C. 20549

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE
 SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended **September 30, 2023**
 OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE
 SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from _____ to _____

FIRST MERCHANTS CORPORATION

(Exact name of registrant as specified in its charter)

Indiana (State or other jurisdiction of incorporation)	
001-41342 (Commission File Number)	35-1544218 (IRS Employer Identification No.)

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

(Registrant's telephone number, including area code): **(765) 747-1500**

Not Applicable
 (Former name, former address and former fiscal year,
 if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.125 stated value per share	FRME	The Nasdaq Stock Market LLC
Depository Shares, each representing a 1/100th interest in a share of Non-Cumulative Perpetual Preferred Stock, Series A	FRMEP	The Nasdaq Stock Market LLC

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 No

Indicate by check mark whether the registrant has submitted electronically every interactive data file required to be submitted pursuant to Rule 405 of Regulation S-T (\$232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer
 Smaller Reporting Company Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of October 26, 2023, there were 59,846,922 outstanding common shares of the registrant.

TABLE OF CONTENTS

FIRST MERCHANTS CORPORATION

	Page No.
Glossary of Defined Terms	3
Part I. Financial Information	
Item 1.	
Financial Statements:	
Consolidated Condensed Balance Sheets	4
Consolidated Condensed Statements of Income	5
Consolidated Condensed Statements of Comprehensive Income (Loss)	6
Consolidated Condensed Statements of Stockholders' Equity	7
Consolidated Condensed Statements of Cash Flows	9
Notes to Consolidated Condensed Financial Statements	10
Item 2.	
Management's Discussion and Analysis of Financial Condition and Results of Operations	41
Item 3.	
Quantitative and Qualitative Disclosures About Market Risk	58
Item 4.	
Controls and Procedures	59
Part II. Other Information	
Item 1.	
Legal Proceedings	60
Item 1A.	
Risk Factors	60
Item 2.	
Unregistered Sales of Equity Securities and Use of Proceeds	60
Item 3.	
Defaults Upon Senior Securities	60
Item 4.	
Mine Safety Disclosures	61
Item 5.	
Other Information	61
Item 6.	
Exhibits	62
Signatures	63

GLOSSARY OF DEFINED TERMS

FIRST MERCHANTS CORPORATION

ACL	Allowance for Credit Losses
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
Bank	First Merchants Bank, a wholly-owned subsidiary of the Corporation
BTFP	Bank Term Funding Program created by the Federal Reserve in March 2023
CECL	FASB Accounting Standards Update No. 2016-13, <i>Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments</i> , adopted by the Corporation on January 1, 2021.
CET1	Common Equity Tier 1
Corporation	First Merchants Corporation
EITF	FASB's Emerging Issues Task Force
ESPP	Employee Stock Purchase Plan
FASB	Financial Accounting Standards Board
FDIC	Federal Deposit Insurance Corporation
Federal Reserve	Board of Governors of the Federal Reserve System
FHLB	Federal Home Loan Bank
FOMC	Federal Open Market Committee, the monetary policymaking body of the Federal Reserve System.
FTE	Fully taxable equivalent
GAAP	U.S. Generally Accepted Accounting Principles
IRS	Internal Revenue Service
Level One	Level One Bancorp, Inc., which was acquired by the Corporation on April 1, 2022.
OREO	Other real estate owned
PPP	Paycheck Protection Program, which was established by the Coronavirus Aid, Relief and Economic Security Act, or CARES Act, and implemented by the SBA to provide small business loans.
PCD	Purchased credit deteriorated loans
RSA	Restricted Stock Awards
SBA	Small Business Administration
SOFR	Secured Overnight Financing Rate

PART I. FINANCIAL INFORMATION
ITEM 1. CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(table dollar amounts in thousands, except share data)

CONSOLIDATED CONDENSED BALANCE SHEETS

	September 30, 2023 (Unaudited)	December 31, 2022
ASSETS		
Cash and due from banks	\$ 125,173	\$ 122,594
Interest-bearing deposits	348,639	126,061
Investment securities available for sale	1,500,136	1,976,661
Investment securities held to maturity, net of allowance for credit losses of \$245 and \$245 (fair value of \$1,741,225 and \$1,907,865)	2,213,588	2,287,127
Loans held for sale	30,972	9,094
Loans	12,271,422	12,003,894
Less: Allowance for credit losses - loans	(205,782)	(223,277)
Net loans	12,065,640	11,780,617
Premises and equipment	132,441	117,118
Federal Home Loan Bank stock	41,797	38,525
Interest receivable	90,011	85,070
Goodwill	712,002	712,002
Other intangibles	29,281	35,842
Cash surrender value of life insurance	306,106	308,311
Other real estate owned	6,480	6,431
Tax asset, deferred and receivable	135,521	111,222
Other assets	258,861	221,631
TOTAL ASSETS	\$ 17,996,648	\$ 17,938,306
LIABILITIES		
Deposits:		
Noninterest-bearing	\$ 2,554,984	\$ 3,173,417
Interest-bearing	12,091,592	11,209,328
Total Deposits	14,646,576	14,382,745
Borrowings:		
Federal funds purchased	—	171,560
Securities sold under repurchase agreements	152,537	167,413
Federal Home Loan Bank advances	713,384	823,674
Subordinated debentures and other borrowings	158,665	151,298
Total Borrowings	1,024,586	1,313,945
Interest payable	16,473	7,530
Other liabilities	216,369	199,316
Total Liabilities	15,904,004	15,903,536
COMMITMENTS AND CONTINGENT LIABILITIES		
STOCKHOLDERS' EQUITY		
Cumulative Preferred Stock, \$1,000 par value, \$1,000 liquidation value:		
Authorized - 600 cumulative shares		
Issued and outstanding - 125 cumulative shares	125	125
Preferred Stock, Series A, no par value, \$2,500 liquidation preference:		
Authorized - 10,000 non-cumulative perpetual shares		
Issued and outstanding - 10,000 non-cumulative perpetual shares	25,000	25,000
Common Stock, \$0.125 stated value:		
Authorized - 100,000,000 shares		
Issued and outstanding - 59,398,022 and 59,170,583 shares	7,425	7,396
Additional paid-in capital	1,234,402	1,228,626
Retained earnings	1,132,962	1,012,774
Accumulated other comprehensive loss	(307,270)	(239,151)
Total Stockholders' Equity	2,092,644	2,034,770
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 17,996,648	\$ 17,938,306

See NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS.

PART I. FINANCIAL INFORMATION
ITEM 1. CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(table dollar amounts in thousands, except share data)

CONSOLIDATED CONDENSED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
INTEREST INCOME				
Loans receivable:				
Taxable	\$ 191,705	\$ 128,504	\$ 550,314	\$ 314,366
Tax exempt	8,288	6,500	23,757	18,194
Investment securities:				
Taxable	8,590	10,055	26,563	28,937
Tax exempt	13,947	17,261	44,296	50,348
Deposits with financial institutions	5,884	704	9,685	1,544
Federal Home Loan Bank stock	719	314	2,281	635
Total Interest Income	229,133	163,338	656,896	414,024
INTEREST EXPENSE				
Deposits	85,551	16,644	209,437	29,423
Federal funds purchased	—	418	1,420	494
Securities sold under repurchase agreements	797	372	2,624	595
Federal Home Loan Bank advances	6,896	3,493	20,775	6,485
Subordinated debentures and other borrowings	2,506	2,105	7,303	5,780
Total Interest Expense	95,750	23,032	241,559	42,777
NET INTEREST INCOME	133,383	140,306	415,337	371,247
Provision for credit losses	2,000	—	2,000	16,755
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	131,383	140,306	413,337	354,492
NONINTEREST INCOME				
Service charges on deposit accounts	7,975	7,165	23,147	21,274
Fiduciary and wealth management fees	7,394	7,221	22,653	22,187
Card payment fees	4,716	4,776	14,425	15,674
Net gains and fees on sales of loans	5,517	2,543	11,548	7,968
Derivative hedge fees	516	700	2,336	3,062
Other customer fees	384	501	1,643	1,573
Increase in cash surrender value of life insurance	1,210	1,376	3,813	3,831
Gains on life insurance benefits	551	5,279	1,332	5,828
Net realized gains (losses) on sales of available for sale securities	(1,650)	481	(4,613)	1,137
Other income (loss)	1,229	(425)	2,874	1,257
Total Noninterest Income	27,842	29,617	79,158	83,791
NONINTEREST EXPENSES				
Salaries and employee benefits	55,566	56,002	167,778	154,562
Net occupancy	6,837	6,738	20,770	19,573
Equipment	5,698	5,997	18,005	17,797
Marketing	2,369	2,401	4,780	4,551
Outside data processing fees	6,573	6,827	19,290	16,071
Printing and office supplies	333	472	1,150	1,198
Intangible asset amortization	2,182	2,303	6,561	5,972
FDIC assessments	2,981	2,824	7,117	7,940
Other real estate owned and foreclosure expenses	677	328	1,575	626
Professional and other outside services	3,833	4,461	12,191	17,681
Other expenses	6,805	8,025	20,950	20,045
Total Noninterest Expenses	93,854	96,378	280,167	266,016
INCOME BEFORE INCOME TAX	65,371	73,545	212,328	172,267
Income tax expense	9,005	9,793	31,021	20,938
NET INCOME	56,366	63,752	181,307	151,329
Preferred stock dividends	468	469	1,406	938
NET INCOME AVAILABLE TO COMMON STOCKHOLDERS	\$ 55,898	\$ 63,283	\$ 179,901	\$ 150,391
Per Share Data:				
Basic Net Income Available to Common Stockholders	\$ 0.95	\$ 1.08	\$ 3.04	\$ 2.63
Diluted Net Income Available to Common Stockholders	\$ 0.94	\$ 1.08	\$ 3.03	\$ 2.62
Cash Dividends Paid	\$ 0.34	\$ 0.32	\$ 1.00	\$ 0.93
Average Diluted Common Shares Outstanding (in thousands)	59,503	59,339	59,465	57,468

See NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS.

PART I. FINANCIAL INFORMATION
ITEM 1. CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(table dollar amounts in thousands, except share data)

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Net income	\$ 56,366	\$ 63,752	\$ 181,307	\$ 151,329
Other comprehensive income/(loss):				
Unrealized loss on securities available-for-sale:				
Unrealized holding loss arising during the period	(114,630)	(145,935)	(90,675)	(467,210)
Reclassification adjustment for losses/(gains) included in net income	1,650	(481)	4,613	(1,137)
Tax effect	23,726	30,747	18,073	98,353
Net of tax	(89,254)	(115,669)	(67,989)	(369,994)
Unrealized gain/(loss) on cash flow hedges:				
Unrealized holding gain/(loss) arising during the period	(66)	94	(179)	507
Reclassification adjustment for losses/(gains) included in net income	—	78	15	496
Tax effect	14	(36)	34	(211)
Net of tax	(52)	136	(130)	792
Total other comprehensive income/(loss), net of tax	(89,306)	(115,533)	(68,119)	(369,202)
Comprehensive income/(loss)	\$ (32,940)	\$ (51,781)	\$ 113,188	\$ (217,873)

See NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS.

PART I. FINANCIAL INFORMATION
ITEM 1. CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(table dollar amounts in thousands, except share data)

CONSOLIDATED CONDENSED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)

	Three Months Ended September 30, 2023									
	Cumulative Preferred Stock		Non-Cumulative Preferred Stock		Common Stock		Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	Shares	Amount	Shares	Amount	Shares	Amount				
Balances, June 30, 2023	125	\$ 125	10,000	\$ 25,000	59,297,148	\$ 7,412	\$ 1,233,593	\$ 1,097,399	\$ (217,964)	\$ 2,145,565
Comprehensive loss:										
Net income	—	—	—	—	—	—	—	56,366	—	56,366
Other comprehensive loss, net of tax	—	—	—	—	—	—	—	—	(89,306)	(89,306)
Cash dividends on preferred stock (\$46.88 per share)	—	—	—	—	—	—	—	(468)	—	(468)
Cash dividends on common stock (\$0.34 per share)	—	—	—	—	—	—	—	(20,335)	—	(20,335)
Share-based compensation	—	—	—	—	114,435	14	1,346	—	—	1,360
Stock issued under employee benefit plans	—	—	—	—	8,226	1	209	—	—	210
Stock issued under dividend reinvestment and stock purchase plan	—	—	—	—	18,524	3	536	—	—	539
Restricted shares withheld for taxes	—	—	—	—	(40,311)	(5)	(1,282)	—	—	(1,287)
Balances, September 30, 2023	<u>125</u>	<u>\$ 125</u>	<u>10,000</u>	<u>\$ 25,000</u>	<u>59,398,022</u>	<u>\$ 7,425</u>	<u>\$ 1,234,402</u>	<u>\$ 1,132,962</u>	<u>\$ (307,270)</u>	<u>\$ 2,092,644</u>

	Three Months Ended September 30, 2022									
	Cumulative Preferred Stock		Non-Cumulative Preferred Stock		Common Stock		Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	Shares	Amount	Shares	Amount	Shares	Amount				
Balances, June 30, 2022	125	\$ 125	10,000	\$ 25,000	59,059,866	\$ 7,383	\$ 1,226,378	\$ 917,311	\$ (198,556)	\$ 1,977,641
Comprehensive loss:										
Net income	—	—	—	—	—	—	—	63,752	—	63,752
Other comprehensive loss net of tax	—	—	—	—	—	—	—	—	(115,533)	(115,533)
Cash dividends on preferred stock (\$46.88 per share)	—	—	—	—	—	—	—	(469)	—	(469)
Cash dividends on common stock (\$0.32 per share)	—	—	—	—	—	—	—	(19,052)	—	(19,052)
Share-based compensation	—	—	—	—	105,409	13	1,173	—	—	1,186
Stock issued under employee benefit plans	—	—	—	—	6,017	1	202	—	—	203
Stock issued under dividend reinvestment and stock purchase plan	—	—	—	—	12,769	2	526	—	—	528
Restricted shares withheld for taxes	—	—	—	—	(38,647)	(6)	(1,584)	—	—	(1,590)
Balances, September 30, 2022	<u>125</u>	<u>\$ 125</u>	<u>10,000</u>	<u>\$ 25,000</u>	<u>59,145,414</u>	<u>\$ 7,393</u>	<u>\$ 1,226,695</u>	<u>\$ 961,542</u>	<u>\$ (314,089)</u>	<u>\$ 1,906,666</u>

PART I. FINANCIAL INFORMATION
ITEM 1. CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(table dollar amounts in thousands, except share data)

	Nine Months Ended September 30, 2023									
	Cumulative Preferred Stock		Non-Cumulative Preferred Stock		Common Stock		Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	Shares	Amount	Shares	Amount	Shares	Amount				
Balances, December 31, 2022	125	\$ 125	10,000	\$ 25,000	59,170,583	\$ 7,396	\$ 1,228,626	\$ 1,012,774	\$ (239,151)	\$ 2,034,770
Comprehensive income:										
Net income	—	—	—	—	—	—	—	181,307	—	181,307
Other comprehensive loss, net of tax	—	—	—	—	—	—	—	—	(68,119)	(68,119)
Cash dividends on preferred stock (\$140.64 per share)	—	—	—	—	—	—	—	(1,406)	—	(1,406)
Cash dividends on common stock (\$1.00 per share)	—	—	—	—	—	—	—	(59,713)	—	(59,713)
Share-based compensation	—	—	—	—	129,092	16	3,776	—	—	3,792
Stock issued under employee benefit plans	—	—	—	—	21,661	3	587	—	—	590
Stock issued under dividend reinvestment and stock purchase plan	—	—	—	—	52,061	7	1,596	—	—	1,603
Stock options exercised	—	—	—	—	65,025	8	1,102	—	—	1,110
Restricted shares withheld for taxes	—	—	—	—	(40,400)	(5)	(1,285)	—	—	(1,290)
Balances, September 30, 2023	125	\$ 125	10,000	\$ 25,000	59,398,022	\$ 7,425	\$ 1,234,402	\$ 1,132,962	\$ (307,270)	\$ 2,092,644

	Nine Months Ended September 30, 2022									
	Cumulative Preferred Stock		Non-Cumulative Preferred Stock		Common Stock		Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	Shares	Amount	Shares	Amount	Shares	Amount				
Balances, December 31, 2021	125	\$ 125	—	\$ —	53,410,411	\$ 6,676	\$ 985,818	\$ 864,839	\$ 55,113	1,912,571
Comprehensive loss:										
Net income	—	—	—	—	—	—	—	151,329	—	151,329
Other comprehensive loss, net of tax	—	—	—	—	—	—	—	—	(369,202)	(369,202)
Cash dividends on preferred stock (\$93.76 per share)	—	—	—	—	—	—	—	(938)	—	(938)
Cash dividends on common stock (\$0.93 per share)	—	—	—	—	—	—	—	(53,688)	—	(53,688)
Issuance of stock related to acquisition	—	—	10,000	25,000	5,588,962	699	236,690	—	—	262,389
Share-based compensation	—	—	—	—	112,443	14	3,416	—	—	3,430
Stock issued under employee benefit plans	—	—	—	—	15,072	2	518	—	—	520
Stock issued under dividend reinvestment and stock purchase plan	—	—	—	—	37,693	5	1,531	—	—	1,536
Stock options exercised	—	—	—	—	20,095	3	333	—	—	336
Restricted shares withheld for taxes	—	—	—	—	(39,262)	(6)	(1,611)	—	—	(1,617)
Balances, September 30, 2022	125	\$ 125	10,000	\$ 25,000	59,145,414	\$ 7,393	\$ 1,226,695	\$ 961,542	\$ (314,089)	\$ 1,906,666

See NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS.

PART I. FINANCIAL INFORMATION
ITEM 1. CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(table dollar amounts in thousands, except share data)

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (Unaudited)

	Nine Months Ended September 30,	
	2023	2022
Cash Flow From Operating Activities:		
Net income	\$ 181,307	\$ 151,329
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	2,000	16,755
Depreciation and amortization	8,666	8,802
Change in deferred taxes	3,957	2,676
Share-based compensation	3,792	3,430
Loans originated for sale	(567,626)	(178,972)
Proceeds from sales of loans held for sale	551,613	176,567
Gains on sales of loans held for sale	(5,865)	(3,851)
Net (gains) losses on sales of securities available for sale	4,613	(1,137)
Increase in cash surrender value of life insurance	(3,813)	(3,831)
Gains on life insurance benefits	(1,332)	(5,828)
Change in interest receivable	(4,941)	(7,230)
Change in interest payable	8,943	1,144
Other adjustments	(8,616)	(15,170)
Net cash provided by operating activities	<u>172,698</u>	<u>144,684</u>
Cash Flows from Investing Activities:		
Net change in interest-bearing deposits	(222,578)	294,561
Purchases of:		
Securities available for sale	(12,543)	(450,168)
Securities held to maturity	(5,653)	(288,094)
Proceeds from sales of securities available for sale	347,318	524,688
Proceeds from maturities of:		
Securities available for sale	44,925	181,997
Securities held to maturity	76,427	127,582
Change in Federal Home Loan Bank stock	(3,272)	2,368
Net change in loans	(404,833)	(803,746)
Net cash and cash equivalents received (paid) in acquisition	—	137,780
Proceeds from the sale of other real estate owned	1,175	495
Proceeds from life insurance benefits	7,350	23,911
Proceeds from commercial portfolio loan sale	112,124	—
Other adjustments	(27,215)	(9,003)
Net cash used in investing activities	<u>(86,775)</u>	<u>(257,629)</u>
Cash Flows from Financing Activities:		
Net change in:		
Demand and savings deposits	(581,735)	(29,993)
Certificates of deposit and other time deposits	845,566	(198,549)
Borrowings	754,229	913,330
Repayment of borrowings	(1,043,588)	(567,223)
Cash dividends on preferred stock	(1,406)	(938)
Cash dividends on common stock	(59,713)	(53,688)
Stock issued under employee benefit plans	590	520
Stock issued under dividend reinvestment and stock purchase plans	1,603	1,536
Stock options exercised	1,110	336
Net cash provided (used) by financing activities	<u>(83,344)</u>	<u>65,331</u>
Net Change in Cash and Cash Equivalents	<u>2,579</u>	<u>(47,614)</u>
Cash and Cash Equivalents, January 1	122,594	167,146
Cash and Cash Equivalents, September 30	<u>\$ 125,173</u>	<u>\$ 119,532</u>
Additional cash flow information:		
Interest paid	\$ 232,616	\$ 40,568
Income tax paid	32,741	12,102
Loans transferred to other real estate owned	1,224	6,418
Fixed assets transferred to other real estate owned	3,226	1,398
Non-cash investing activities using trade date accounting	4,462	41,106
ROU assets obtained in exchange for new operating lease liabilities	1,630	9,081
In conjunction with the acquisitions, liabilities were assumed as follows:		
Fair value of assets acquired	\$ —	\$ 2,510,576
Cash paid in acquisition	—	(79,324)
Less: Common stock issued	—	237,389
Less: Preferred stock issued	—	25,000
Liabilities assumed	<u>\$ —</u>	<u>\$ 2,168,863</u>

See NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS.

PART I. FINANCIAL INFORMATION
ITEM 1. NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(table dollar amounts in thousands, except share data)
(Unaudited)

NOTE 1
GENERAL
Financial Statement Preparation

The Consolidated Condensed Balance Sheet of the Corporation as of December 31, 2022, has been derived from the audited consolidated balance sheet of the Corporation as of that date. Certain information and note disclosures normally included in the Corporation's annual financial statements, prepared in accordance with accounting principles generally accepted in the United States of America, have been condensed or omitted. These consolidated condensed financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2022 filed with the Securities and Exchange Commission. The results of operations for the three and nine months ended September 30, 2023, are not necessarily indicative of the results to be expected for the year. Reclassifications have been made to prior financial statements to conform to the current financial statement presentation. These reclassifications had no effect on net income. Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for credit losses and fair value of financial instruments.

Significant Accounting Policies

The significant accounting policies followed by the Corporation and its wholly-owned subsidiaries for interim financial reporting are consistent with the accounting policies followed for annual financial reporting. All adjustments, which are of a normal recurring nature and 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 Condensed Financial Statements.

Recent Accounting Changes Adopted in 2023

FASB Accounting Standards Updates - No. 2020-04 - Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting Summary - The FASB issued ASU No. 2020-04 to provide temporary optional guidance to ease the potential burden in accounting for reference rate reform. LIBOR and other interbank offered rates are widely used benchmarks or reference rates in the United States and globally. Trillions of dollars in loans, derivatives, and other financial contracts reference LIBOR, the benchmark interest rate banks use to make short-term loans to each other. With global capital markets expected to move away from LIBOR and other interbank offered rates and move toward rates that are more observable or transaction based and less susceptible to manipulation, the FASB launched a broad project in late 2018 to address potential accounting challenges expected to arise from the transition. The new guidance provides optional expedients and exceptions for applying generally accepted accounting principles to contract modifications and hedging relationships, subject to meeting certain criteria, that reference LIBOR or another reference rate expected to be discontinued. The ASU is intended to help stakeholders during the global market-wide reference rate transition period.

With the issuance of ASU 2022-06 - *Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848*, the sunset date for adoption of ASU 2020-04 was extended from December 31, 2022 to December 31, 2024. The Corporation adopted the expedients included in this ASU in the second quarter of 2023 as it transitioned its loans and other financial instruments to another reference rate.

FASB Accounting Standards Updates - No. 2021-01 - Reference Rate Reform (Topic 848): Scope

Summary - The FASB has published ASU 2021-01, *Reference Rate Reform*, which clarifies that certain optional expedients and exceptions in Topic 848 for contract modifications and hedge accounting apply to derivatives that are affected by the discounting transition. The ASU also amends the expedients and exceptions in Topic 848 to capture the incremental consequences of the scope clarification and to tailor the existing guidance to derivative instruments affected by the discounting transition.

If an entity elects to apply any of the amendments in this Update for an eligible hedging relationship, any adjustments as a result of those elections must be reflected as of the date the entity applies the election.

With the issuance of ASU 2022-06 - *Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848*, the sunset date for adoption of ASU 2021-01 was extended from December 31, 2022 to December 31, 2024. The Corporation adopted the expedients included in this ASU in the second quarter of 2023 as it transitioned its loans and other financial instruments to another reference rate.

PART I. FINANCIAL INFORMATION
ITEM 1. NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(table dollar amounts in thousands, except share data)
(Unaudited)

FASB Accounting Standards Updates - No. 2021-08 - Business Combinations (Topic 805) - Accounting for Contract Assets and Contract Liabilities from Contracts with Customers

Summary - The FASB issued ASU No. 2021-08, *Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*, that addressed diversity in practice related to the accounting for revenue contracts with customers acquired in a business combination.

Under existing GAAP, an acquirer generally recognized assets acquired and liabilities assumed in a business combination, including contract assets and contract liabilities arising from revenue contracts with customers and other similar contracts that are accounted for in accordance with Topic 606, *Revenue from Contracts with Customers*, at fair value on the acquisition date.

The FASB indicated that some stakeholders indicated that it is unclear how an acquirer should evaluate whether to recognize a contract liability from a revenue contract with a customer acquired in a business combination after Topic 606 was adopted. Furthermore, it was identified that under current practice, the timing of payment (payment terms) of a revenue contract may subsequently affect the post-acquisition revenue recognized by the acquirer. To address this, the ASU required entities to apply Topic 606 to recognize and measure contract assets and contract liabilities in a business combination. Finally, the amendments in the ASU improve comparability after the business combination by providing consistent recognition and measurement guidance for revenue contracts with customers acquired in a business combination and revenue contracts with customers not acquired in a business combination.

For public business entities, the amendments were effective for fiscal years beginning after December 31, 2022, including interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 31, 2023, including interim periods within those fiscal years. The amendments in this Update are applied prospectively to business combinations occurring on or after the effective date of the amendments. Early adoption of the amendments was permitted, including adoption in an interim period. An entity that early adopted in an interim period applied the amendments (1) retrospectively to all business combinations for which the acquisition date occurred on or after the beginning of the fiscal year that included the interim period or early application, and (2) prospectively to all business combinations that occurred on or after the date of initial application. The Corporation adopted this guidance on January 1, 2023, but adoption of the standard did not have any impact on the Corporation's financial statements or disclosures.

FASB Accounting Standards Updates - No. 2022-02 - Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures

Summary - The FASB issued ASU No. 2022-02, *Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*, to improve the usefulness of information provided to investors about certain loan refinancings, restructurings, and writeoffs.

Troubled Debt Restructurings ("TDR") by Creditors That Have Adopted CECL

During the FASB's post-writeoff information review of the credit losses standard, including a May 2021 roundtable, investors and other stakeholders questioned the relevance of the TDR designation and the usefulness of disclosures about those modifications. Some noted that measurement of expected losses under the CECL model already incorporated losses realized from restructurings that are TDRs and that relevant information for investors would be better conveyed through enhanced disclosures about certain modifications.

The amendments in the new ASU eliminate the accounting guidance for TDRs by creditors that have adopted CECL while enhancing disclosure requirements for certain loan refinancings and restructurings by creditors made to borrowers experiencing financial difficulty.

Vintage Disclosures - Gross Writeoffs

The disclosure of gross writeoff information by year of origination was cited by numerous investors as an essential input to their analysis. To address this feedback, the amendments in the new ASU require that a public business entity disclose current-period gross writeoffs by year of origination for financing receivables and net investment in leases.

For entities that have adopted the amendments in ASU 2016-13, the amendments in this Update were effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. The Corporation adopted this Update on January 1, 2023 and the new disclosures required in this Update are included in NOTE 4. LOANS AND ALLOWANCE of these Notes to Consolidated Condensed Financial Statements.

New Accounting Pronouncements Not Yet Adopted

The Corporation continually monitors potential accounting pronouncements and the following pronouncements have been deemed to have the most applicability to the Corporation's financial statements:

FASB Accounting Standards Updates - No. 2023-02 - Investments - Equity Method and Joint Ventures (Topic 323) - Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method

Summary - The FASB issued ASU No. 2023-02, *Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method*, that is intended to improve the accounting and disclosures for investments in tax credit structures. The ASU is a consensus of the FASB's Emerging Issues Task Force ("EITF").

The ASU allows reporting entities to elect to account for qualifying tax equity investments using the proportional amortization method, regardless of the program giving rise to the related income tax credits. The ASU responds to stakeholder feedback that the proportional amortization method provides investors and other allocators of capital with a better understanding of the returns from investments that are made primarily for the purpose of receiving income tax credits and other income tax benefits.

PART I. FINANCIAL INFORMATION
ITEM 1. NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(table dollar amounts in thousands, except share data)
(Unaudited)

Reporting entities were previously permitted to apply the proportional amortization method only to qualifying tax equity investments in low-income housing tax credit (LIHTC) structures. In recent years, stakeholders asked the FASB to extend the application of the proportional amortization method to qualifying tax equity investments that generate tax credits through other programs, which resulted in the EITF addressing this issue.

For public business entities, the amendments are effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2024, including interim periods within those fiscal years. Early adoption is permitted for all entities in any interim period. The Corporation is assessing the terms of this guidance, but adoption of the standard is not expected to have a significant impact on the Corporation's financial statements or disclosures.

NOTE 2
ACQUISITIONS

Level One Bancorp, Inc.

On April 1, 2022, the Corporation acquired 100 percent of Level One Bancorp, Inc. ("Level One"). Level One, a Michigan corporation, merged with and into the Corporation (the "Merger"), whereupon the separate corporate existence of Level One ceased and the Corporation survived. Immediately following the Merger, Level One's wholly owned subsidiary, Level One Bank, merged with and into the Bank, with the Bank as the surviving bank.

Level One was headquartered in Farmington Hills, Michigan and had 17 banking centers serving the Michigan market. Pursuant to the merger agreement, each common shareholder of Level One received, for each outstanding share of Level One common stock held, (a) a 0.7167 share of the Corporation's common stock, and (b) a cash payment of \$10.17. The Corporation issued 5.6 million shares of the Corporation's common stock and paid \$79.3 million in cash, in exchange for all outstanding shares of Level One common stock.

Additionally, the Corporation issued 10,000 shares of newly created 7.5 percent non-cumulative perpetual preferred stock, with a liquidation preference of \$2,500 per share, in exchange for the outstanding Level One Series B preferred stock. Likewise, each outstanding Level One depositary share representing a 1/100th interest in a share of the Level One Series B preferred stock was converted into a depositary share of the Corporation representing a 1/100th interest in a share of its newly issued preferred stock (Nasdaq: FRMEP).

The Corporation engaged in this transaction with the expectation that it would be accretive to income and add to the existing market area in Michigan that has a demographic profile consistent with many of the current Midwest markets served by the Bank. Goodwill resulted from this transaction due to the expected synergies and economies of scale.

Under the acquisition method of accounting, the total purchase price is allocated to net tangible and intangible assets based on their current estimated fair values on the date of the acquisition. Based on valuations of the fair value of tangible and intangible assets acquired and liabilities assumed, which are based on assumptions that are subject to change based on the timing of the transaction, the purchase price for the Level One acquisition is detailed in the following table.

	Fair Value
Cash and due from banks	\$ 217,104
Investment securities available for sale	370,071
Investment securities held to maturity	587
Loans held for sale	7,951
Loans	1,627,423
Allowance for credit losses - loans	(16,599)
Premises and equipment	11,848
Federal Home Loan Bank stock	11,688
Interest receivable	7,188
Cash surrender value of life insurance	30,143
Tax asset, deferred and receivable	16,223
Other assets	41,690
Deposits	(1,930,790)
Securities sold under repurchase agreements	(1,521)
Federal Home Loan Bank advances	(160,043)
Subordinated debentures	(32,631)
Interest payable	(1,065)
Other liabilities	(42,813)
Net tangible assets acquired	156,454
Other intangibles	18,642
Goodwill	166,617
Purchase price	\$ 341,713

PART I. FINANCIAL INFORMATION
ITEM 1. NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(table dollar amounts in thousands, except share data)
(Unaudited)

The Corporation performed an evaluation of the loan portfolio in which there were loans that, at acquisition, had more than an insignificant amount of credit quality deterioration and were classified as purchased credit deteriorated ("PCD"). Details of the PCD loans are included in NOTE 4. LOANS AND ALLOWANCE of these Notes to Consolidated Condensed Financial Statements.

Of the total purchase price, \$18.6 million has been allocated to other intangible assets. Approximately \$17.2 million was allocated to a core deposit intangible, which will be amortized over its estimated life of 10 years. Approximately \$1.4 million was allocated to a non-compete intangible, which will be amortized over its estimated life of 2 years. The remaining purchase price has been allocated to goodwill, which is not deductible for tax purposes.

Pro Forma Financial Information

The results of operations of Level One have been included in the Corporation's consolidated financial statements since the acquisition date. The following schedule includes pro forma results for the year ended December 31, 2022 as if the Level One acquisition occurred as of the beginning of the period presented.

	2022	
Total revenue (net interest income plus other income)	\$	654,313
Net income	\$	221,631
Net income available to common stockholders	\$	219,756
Earnings per common share:		
Basic	\$	3.72
Diluted	\$	3.70

The pro forma information includes adjustments for interest income on loans and investment securities, interest expense on deposits and borrowings, premises expense for the banking centers acquired and amortization of intangibles arising from the transaction and the related income tax effects. The pro forma information includes operating revenue of \$56.9 million from Level One since the date of acquisition, \$16.8 million of provision expense related to CECL Day 1 adjustments for PCD loans, and \$16.5 million of acquisition-related expenses. The pro forma information is presented for information purposes only and is not indicative of the results of operations that actually would have been achieved had the acquisition been consummated as of January 1, 2022, nor is it intended to be a projection of future results.

NOTE 3

INVESTMENT SECURITIES

The following table summarizes the amortized cost, gross unrealized gains and losses and approximate fair value of investment securities available for sale as of September 30, 2023 and December 31, 2022.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale at September 30, 2023				
U.S. Treasury	\$ 1,737	\$ —	\$ 24	\$ 1,713
U.S. Government-sponsored agency securities	114,414	—	20,829	93,585
State and municipal	1,217,293	—	244,237	973,056
U.S. Government-sponsored mortgage-backed securities	536,530	—	116,567	419,963
Corporate obligations	12,960	—	1,141	11,819
Total available for sale	\$ 1,882,934	\$ —	\$ 382,798	\$ 1,500,136

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale at December 31, 2022				
U.S. Treasury	\$ 2,501	\$ —	\$ 42	\$ 2,459
U.S. Government-sponsored agency securities	119,154	—	17,192	101,962
State and municipal	1,530,048	438	178,726	1,351,760
U.S. Government-sponsored mortgage-backed securities	608,630	1	100,358	508,273
Corporate obligations	13,014	—	807	12,207
Total available for sale	\$ 2,273,347	\$ 439	\$ 297,125	\$ 1,976,661

PART I. FINANCIAL INFORMATION
ITEM 1. NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(table dollar amounts in thousands, except share data)
(Unaudited)

The following table summarizes the amortized cost, gross unrealized gains and losses, approximate fair value and allowance for credit losses on investment securities held to maturity as of September 30, 2023 and December 31, 2022.

	Amortized Cost	Allowance for Credit Losses	Net Carrying Amount	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held to maturity at September 30, 2023						
U.S. Government-sponsored agency securities	\$ 378,706	\$ —	\$ 378,706	\$ —	\$ 78,882	\$ 299,824
State and municipal	1,107,325	245	1,107,080	14	258,536	848,803
U.S. Government-sponsored mortgage-backed securities	726,302	—	726,302	—	135,163	591,139
Foreign investment	1,500	—	1,500	—	41	1,459
Total held to maturity	<u>\$ 2,213,833</u>	<u>\$ 245</u>	<u>\$ 2,213,588</u>	<u>\$ 14</u>	<u>\$ 472,622</u>	<u>\$ 1,741,225</u>

	Amortized Cost	Allowance for Credit Losses	Net Carrying Amount	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held to maturity at December 31, 2022						
U.S. Government-sponsored agency securities	\$ 392,246	\$ —	\$ 392,246	\$ —	\$ 69,147	\$ 323,099
State and municipal	1,117,552	245	1,117,307	647	197,064	921,135
U.S. Government-sponsored mortgage-backed securities	776,074	—	776,074	—	113,915	662,159
Foreign investment	1,500	—	1,500	—	28	1,472
Total held to maturity	<u>\$ 2,287,372</u>	<u>\$ 245</u>	<u>\$ 2,287,127</u>	<u>\$ 647</u>	<u>\$ 380,154</u>	<u>\$ 1,907,865</u>

Accrued interest on investment securities available for sale and held to maturity at September 30, 2023 and December 31, 2022 of \$23.2 million and \$29.5 million, respectively, are included in the Interest Receivable line on the Corporation's Consolidated Condensed Balance Sheets. The total amount of accrued interest is excluded from the amortized cost of available for sale and held to maturity securities presented above.

In determining the allowance for credit losses on investment securities available for sale that are in an unrealized loss position, the Corporation first assesses whether it intends to sell, or it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through the income statement. For investment securities available for sale that do not meet the aforementioned criteria, the Corporation evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, the Corporation considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Unrealized losses that have not been recorded through an allowance for credit losses is recognized in other comprehensive income. Adjustments to the allowance are reported in the income statement as a component of the provision for credit loss. The Corporation has made the accounting policy election to exclude accrued interest receivable on investment securities available for sale from the estimate of credit losses. Investment securities available for sale are charged off against the allowance or, in the absence of any allowance, written down through the income statement when deemed uncollectible or when either of the aforementioned criteria regarding intent or requirement to sell is met. The Corporation did not record an allowance for credit losses on its investment securities available for sale as the unrealized losses were attributable to changes in interest rates, not credit quality.

The allowance for credit losses on investment securities held to maturity is a contra asset-valuation account that is deducted from the amortized cost basis of investment securities held to maturity to present the net amount expected to be collected. Investment securities held to maturity are charged off against the allowance when deemed uncollectible. Adjustments to the allowance are reported in the income statement as a component of the provision for credit loss. The Corporation measures expected credit losses on investment securities held to maturity on a collective basis by major security type with each type sharing similar risk characteristics, and considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts. The Corporation has made the accounting policy election to exclude accrued interest receivable on investment securities held to maturity from the estimate of credit losses. With regard to U.S. Government-sponsored agency and mortgage-backed securities, all these securities are issued by a U.S. government-sponsored entity and have an implicit or explicit government guarantee; therefore, no allowance for credit losses has been recorded for these securities. With regard to securities issued by states and municipalities and other investment securities held to maturity, management considers (1) issuer bond ratings, (2) historical loss rates for given bond ratings, (3) the financial condition of the issuer, and (4) whether issuers continue to make timely principal and interest payments under the contractual terms of the securities. Historical loss rates associated with securities having similar grades as those in the Corporation's portfolio have been insignificant. Furthermore, as of September 30, 2023, there were no past due principal and interest payments associated with these securities. At CECL adoption, an allowance for credit losses of \$245,000 was recorded on the state and municipal securities classified as held to maturity based on applying the long-term historical credit loss rate, as published by Moody's, for similarly rated securities. The balance of the allowance for credit losses remained unchanged at \$245,000 as of September 30, 2023.

PART I. FINANCIAL INFORMATION
ITEM 1. NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(table dollar amounts in thousands, except share data)
(Unaudited)

On a quarterly basis, the Corporation monitors the credit quality of investment securities held to maturity through the use of credit ratings. The following table summarizes the amortized cost of investment securities held to maturity at September 30, 2023, aggregated by credit quality indicator.

Credit Rating:	Held to Maturity		
	State and municipal	Other	Total
Aaa	\$ 114,709	\$ 70,585	\$ 185,294
Aa1	153,408	—	153,408
Aa2	181,369	—	181,369
Aa3	133,499	—	133,499
A1	131,310	—	131,310
A2	10,172	—	10,172
A3	10,125	—	10,125
Non-rated	372,733	1,035,923	1,408,656
Total	\$ 1,107,325	\$ 1,106,508	\$ 2,213,833

The following tables summarize, as of September 30, 2023 and December 31, 2022, investment securities available for sale in an unrealized loss position for which an allowance for credit losses has not been recorded, aggregated by security type and length of time in a continuous unrealized loss position.

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Investment securities available for sale at September 30, 2023						
U.S. Treasury	\$ 397	\$ 1	\$ 1,316	\$ 23	\$ 1,713	\$ 24
U.S. Government-sponsored agency securities	796	3	92,789	20,826	93,585	20,829
State and municipal	86,964	10,369	886,092	233,868	973,056	244,237
U.S. Government-sponsored mortgage-backed securities	11,273	453	408,686	116,114	419,959	116,567
Corporate obligations	—	—	11,788	1,141	11,788	1,141
Total investment securities available for sale	\$ 99,430	\$ 10,826	\$ 1,400,671	\$ 371,972	\$ 1,500,101	\$ 382,798

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Investment securities available for sale at December 31, 2022						
U.S. Treasury	\$ 2,459	\$ 42	\$ —	\$ —	\$ 2,459	\$ 42
U.S. Government-sponsored agency securities	48,940	4,973	53,022	12,219	101,962	17,192
State and municipal	1,177,104	150,096	108,652	28,630	1,285,756	178,726
U.S. Government-sponsored mortgage-backed securities	182,700	16,910	325,455	83,448	508,155	100,358
Corporate obligations	12,176	807	—	—	12,176	807
Total investment securities available for sale	\$ 1,423,379	\$ 172,828	\$ 487,129	\$ 124,297	\$ 1,910,508	\$ 297,125

PART I. FINANCIAL INFORMATION
ITEM 1. NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(table dollar amounts in thousands, except share data)
(Unaudited)

The following table summarizes investment securities available for sale in an unrealized loss position for which an allowance for credit losses has not been recorded, aggregated by security type and the number of securities in the portfolio as of the dates indicated.

	Gross Unrealized Losses	Number of Securities
Investment securities available for sale at September 30, 2023		
U.S. Treasury	\$ 24	3
U.S. Government-sponsored agency securities	20,829	16
State and municipal	244,237	743
U.S. Government-sponsored mortgage-backed securities	116,567	164
Corporate obligations	1,141	10
Total investment securities available for sale	<u>\$ 382,798</u>	<u>936</u>

	Gross Unrealized Losses	Number of Securities
Investment securities available for sale at December 31, 2022		
U.S. Treasury	\$ 42	5
U.S. Government-sponsored agency securities	17,192	16
State and municipal	178,726	946
U.S. Government-sponsored mortgage-backed securities	100,358	177
Corporate obligations	807	10
Total investment securities available for sale	<u>\$ 297,125</u>	<u>1,154</u>

The unrealized losses in the Corporation's investment portfolio were the result of changes in interest rates and not credit quality. As a result, the Corporation expects to recover the amortized cost basis over the term of the securities. The Corporation does not intend to sell the investments and it is not more likely than not that the Corporation will be required to sell the investments before recovery of their amortized cost basis, which may be maturity.

Certain investment securities available for sale are reported in the financial statements at an amount less than their historical cost as indicated in the table below.

	September 30, 2023	December 31, 2022
Investments available for sale reported at less than historical cost:		
Historical cost	\$ 1,882,899	\$ 2,207,633
Fair value	1,500,101	1,910,508
Gross unrealized losses	<u>\$ 382,798</u>	<u>\$ 297,125</u>
Percent of the Corporation's investments available for sale	99.99 %	96.65 %

In determining the fair value of the investment securities portfolio, the Corporation utilizes a third party for portfolio accounting services, including market value input, for those securities classified as Level 1 and Level 2 in the fair value hierarchy. The Corporation has obtained an understanding of what inputs are being used by the vendor in pricing the portfolio and how the vendor classified these securities based upon these inputs. From these discussions, the Corporation's management is comfortable that the classifications are proper. The Corporation has gained trust in the data for two reasons: (a) independent spot testing of the data is conducted by the Corporation through obtaining market quotes from various brokers on a periodic basis; and (b) actual gains or losses resulting from the sale of certain securities has proven the data to be accurate over time. Fair value of securities classified as Level 3 in the valuation hierarchy was determined using a discounted cash flow model that incorporated market estimates of interest rates and volatility in markets that have not been active.

PART I. FINANCIAL INFORMATION
ITEM 1. NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(table dollar amounts in thousands, except share data)
(Unaudited)

The amortized cost and fair value of investment securities available for sale and held to maturity at September 30, 2023 and December 31, 2022, by contractual maturity are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity are shown separately.

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Maturity Distribution at September 30, 2023				
Due in one year or less	\$ 3,403	\$ 3,356	\$ 9,422	\$ 9,397
Due after one through five years	27,736	25,266	116,894	106,277
Due after five through ten years	127,442	110,668	134,603	117,134
Due after ten years	1,187,823	940,883	1,226,612	917,278
	1,346,404	1,080,173	1,487,531	1,150,086
U.S. Government-sponsored mortgage-backed securities	536,530	419,963	726,302	591,139
Total investment securities	\$ 1,882,934	\$ 1,500,136	\$ 2,213,833	\$ 1,741,225

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Maturity Distribution at December 31, 2022				
Due in one year or less	\$ 2,822	\$ 2,809	\$ 13,697	\$ 13,749
Due after one through five years	11,694	11,265	80,697	76,453
Due after five through ten years	169,729	161,211	147,078	135,027
Due after ten years	1,480,472	1,293,103	1,269,826	1,020,477
	1,664,717	1,468,388	1,511,298	1,245,706
U.S. Government-sponsored mortgage-backed securities	608,630	508,273	776,074	662,159
Total investment securities	\$ 2,273,347	\$ 1,976,661	\$ 2,287,372	\$ 1,907,865

Securities with a carrying value of approximately \$1.7 billion and \$941.3 million were pledged at September 30, 2023 and December 31, 2022, respectively, to secure certain deposits and securities sold under repurchase agreements, and for other purposes as permitted or required by law. Pledged securities increased from December 31, 2022 as a result of the Corporation pledging additional securities to the Discount Window at the Federal Reserve Bank to be used as an alternative funding source, if needed.

The book value of securities pledged and available under agreements to repurchase amounted to \$187.3 million at September 30, 2023 and \$196.7 million at December 31, 2022.

Gross gains and losses on the sales and redemptions of investment securities available for sale for the three and nine months ended September 30, 2023 and 2022 are shown below.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Sales and redemptions of investment securities available for sale:				
Gross gains	\$ —	\$ 495	\$ 759	\$ 1,176
Gross losses	(1,650)	(14)	(5,372)	(39)
Net gains (losses) on sales and redemptions of investment securities available for sale	<u>\$ (1,650)</u>	<u>\$ 481</u>	<u>\$ (4,613)</u>	<u>\$ 1,137</u>

NOTE 4

LOANS AND ALLOWANCE

Loan Portfolio and Credit Quality

The Corporation's primary lending focus is small business and middle market commercial, commercial real estate, public finance and residential real estate, which results in portfolio diversification. The following tables show the composition of the loan portfolio and credit quality characteristics by collateral classification, excluding loans held for sale. Loans held for sale at September 30, 2023 and December 31, 2022, were \$31.0 million and \$9.1 million, respectively.

PART I. FINANCIAL INFORMATION
ITEM 1. NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(table dollar amounts in thousands, except share data)
(Unaudited)

The following table illustrates the composition of the Corporation's loan portfolio by loan class as of the dates indicated:

	September 30, 2023	December 31, 2022
Commercial and industrial loans	\$ 3,490,953	\$ 3,437,126
Agricultural land, production and other loans to farmers	233,838	241,793
Real estate loans:		
Construction	1,022,261	835,582
Commercial real estate, non-owner occupied	2,360,596	2,407,475
Commercial real estate, owner occupied	1,153,707	1,246,528
Residential	2,257,385	2,096,655
Home equity	609,352	630,632
Individuals' loans for household and other personal expenditures	176,523	175,211
Public finance and other commercial loans	966,807	932,892
Loans	<u>\$ 12,271,422</u>	<u>\$ 12,003,894</u>

Credit Quality

As part of the ongoing monitoring of the credit quality of the Corporation's loan portfolio, management tracks certain credit quality indicators including trends related to: (i) the level of criticized commercial loans, (ii) net charge-offs, (iii) nonperforming loans, (iv) covenant failures and (v) the general national and local economic conditions.

The Corporation utilizes a risk grading of pass, special mention, substandard, doubtful and loss to assess the overall credit quality of large commercial loans. All large commercial credit grades are reviewed at a minimum of once a year for pass grade loans. Loans with grades below pass are reviewed more frequently depending on the grade. A description of the general characteristics of these grades is as follows:

- Pass - Loans that are considered to be of acceptable credit quality.
- Special Mention - Loans which possess some credit deficiency or potential weakness, which deserves close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the Corporation's credit position at some future date. Special mention assets are not adversely classified and do not expose the Corporation to sufficient risk to warrant adverse classification.
- Substandard - A substandard loan is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified have a well-defined weakness that jeopardizes the liquidation of the debt. They are characterized by the distinct possibility that the Corporation will sustain some loss if the deficiencies are not corrected.
- Doubtful - Loans that have all of the weaknesses of those classified as Substandard. However, based on currently existing facts, conditions and values, these weaknesses make full collection of principal highly questionable and improbable.
- Loss – Loans that are considered uncollectible and of such little value that continuing to carry them as an asset is not warranted. Loans will be classified as Loss when it is neither practical or desirable to defer writing off or reserving all or a portion of a basically worthless asset, even though partial recovery may be possible at some time in the future.

PART I. FINANCIAL INFORMATION
ITEM 1. NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(table dollar amounts in thousands, except share data)
(Unaudited)

The following tables summarize the risk grading of the Corporation's loan portfolio by loan class and by year of origination for the years indicated. Consumer loans are not risk graded. For the purposes of this disclosure, the consumer loans are classified in the following manner: loans that are less than 30 days past due are Pass, loans 30-89 days past due are Special Mention and loans greater than 89 days past due are Substandard. The entire balance of a loan is considered delinquent if the minimum payment contractually required to be made is not received by the specified due date.

	September 30, 2023						Revolving loans amortized cost basis	Revolving loans converted to term	Total
	Term Loans (amortized cost basis by origination year)								
	2023	2022	2021	2020	2019	Prior			
Commercial and industrial loans									
Pass	\$ 901,876	\$ 548,276	\$ 296,471	\$ 95,426	\$ 53,498	\$ 49,094	\$ 1,374,146	\$ 50	\$ 3,318,837
Special Mention	9,450	11,955	6,428	5,470	114	897	28,202	—	62,516
Substandard	5,902	20,082	16,554	1,959	4,701	1,655	48,890	—	99,743
Doubtful	908	3,945	—	2,149	—	—	2,855	—	9,857
Total Commercial and industrial loans	918,136	584,258	319,453	105,004	58,313	51,646	1,454,093	50	3,490,953
Current period gross write-offs	13,901	508	400	5,588	76	239	—	—	20,712
Agricultural land, production and other loans to farmers									
Pass	22,521	38,866	33,059	32,234	13,819	26,251	65,513	—	232,263
Special Mention	—	266	—	—	—	597	—	—	863
Substandard	34	156	—	458	—	64	—	—	712
Total Agricultural land, production and other loans to farmers	22,555	39,288	33,059	32,692	13,819	26,912	65,513	—	233,838
Current period gross write-offs	—	—	—	—	—	—	—	—	—
Real estate loans:									
Construction									
Pass	362,578	295,563	266,129	14,325	4,047	2,526	11,577	—	956,745
Special Mention	35,063	424	—	20,846	—	—	—	—	56,333
Substandard	13	3,882	5,288	—	—	—	—	—	9,183
Total Construction	397,654	299,869	271,417	35,171	4,047	2,526	11,577	—	1,022,261
Current period gross write-offs	—	—	—	—	—	—	—	—	—
Commercial real estate, non-owner occupied									
Pass	214,579	529,237	533,207	471,278	142,636	225,787	31,615	—	2,148,339
Special Mention	64,871	22,956	7,842	3,641	26,567	32,842	47	—	158,766
Substandard	18,666	9,807	92	22,216	—	2,339	247	—	53,367
Doubtful	—	124	—	—	—	—	—	—	124
Total Commercial real estate, non-owner occupied	298,116	562,124	541,141	497,135	169,203	260,968	31,909	—	2,360,596
Current period gross write-offs	—	2	—	—	—	—	—	—	2
Commercial real estate, owner occupied									
Pass	119,212	207,077	270,151	269,190	101,546	87,685	27,327	—	1,082,188
Special Mention	5,178	13,603	9,437	6,053	2,831	5,110	334	—	42,546
Substandard	15,113	1,339	4,228	2,486	17	5,163	627	—	28,973
Total Commercial real estate, owner occupied	139,503	222,019	283,816	277,729	104,394	97,958	28,288	—	1,153,707
Current period gross write-offs	—	—	—	—	2	—	—	—	2
Residential									
Pass	332,210	691,941	451,830	372,247	105,548	265,879	4,878	65	2,224,598
Special Mention	1,087	5,304	4,034	1,710	1,578	6,501	2,588	—	22,802
Substandard	357	3,338	2,234	974	528	2,523	31	—	9,985
Total Residential	333,654	700,583	458,098	374,931	107,654	274,903	7,497	65	2,257,385
Current period gross write-offs	—	42	135	3	—	63	—	—	243
Home equity									
Pass	9,155	34,784	64,438	11,511	1,162	4,566	472,517	2,065	600,198
Special Mention	120	720	41	1,114	—	168	4,108	371	6,642
Substandard	63	—	599	—	—	93	1,374	383	2,512
Total Home Equity	9,338	35,504	65,078	12,625	1,162	4,827	477,999	2,819	609,352
Current period gross write-offs	—	160	182	149	193	1,422	—	—	2,106
Individuals' loans for household and other personal expenditures									
Pass	32,590	52,860	31,275	8,070	2,735	6,572	40,907	597	175,606
Special Mention	29	388	250	34	11	11	193	1	917
Substandard	—	—	—	—	—	—	—	—	—
Total Individuals' loans for household and other personal expenditures	32,619	53,248	31,525	8,104	2,746	6,583	41,100	598	176,523
Current period gross write-offs	98	591	291	77	57	151	—	—	1,265
Public finance and other commercial loans									
Pass	61,235	209,069	206,637	157,399	91,705	231,931	8,831	—	966,807
Total Public finance and other commercial loans	61,235	209,069	206,637	157,399	91,705	231,931	8,831	—	966,807
Loans	\$ 2,212,810	\$ 2,705,962	\$ 2,210,224	\$ 1,500,790	\$ 553,043	\$ 958,254	\$ 2,126,807	\$ 3,532	\$ 12,271,422
Total current period gross charge-offs	\$ 13,999	\$ 1,303	\$ 1,008	\$ 5,817	\$ 328	\$ 1,875	\$ —	\$ —	\$ 24,330

PART I. FINANCIAL INFORMATION
ITEM 1. NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(table dollar amounts in thousands, except share data)
(Unaudited)

	December 31, 2022						Revolving loans amortized cost basis	Revolving loans converted to term	Total
	Term Loans (amortized cost basis by origination year)								
	2022	2021	2020	2019	2018	Prior			
Commercial and industrial loans									
Pass	\$ 1,064,687	\$ 531,504	\$ 141,985	\$ 114,999	\$ 43,136	\$ 45,310	\$ 1,302,562	\$ 5,048	\$ 3,249,231
Special Mention	2,164	18,005	11,900	5,727	1,012	2,181	27,702	150	68,841
Substandard	27,512	26,571	5,531	10,606	4,674	567	43,450	143	119,054
Total Commercial and industrial loans	1,094,363	576,080	159,416	131,332	48,822	48,058	1,373,714	5,341	3,437,126
Agricultural land, production and other loans to farmers									
Pass	44,446	36,299	35,791	15,296	3,752	28,910	73,402	—	237,896
Special Mention	286	784	—	—	281	632	—	—	1,983
Substandard	178	—	490	—	94	1,152	—	—	1,914
Total Agricultural land, production and other loans to farmers	44,910	37,083	36,281	15,296	4,127	30,694	73,402	—	241,793
Real estate loans:									
Construction									
Pass	366,414	301,986	117,541	11,428	857	3,224	17,167	—	818,617
Special Mention	16,922	—	—	—	—	—	—	—	16,922
Substandard	31	—	—	—	—	12	—	—	43
Total Construction	383,367	301,986	117,541	11,428	857	3,236	17,167	—	835,582
Commercial real estate, non-owner occupied									
Pass	560,146	603,254	550,605	168,701	116,859	190,264	31,196	3,803	2,224,828
Special Mention	49,439	4,026	38,268	18,785	11,546	17,992	—	—	140,056
Substandard	21,123	8,128	8,026	—	4,442	872	—	—	42,591
Total Commercial real estate, non-owner occupied	630,708	615,408	596,899	187,486	132,847	209,128	31,196	3,803	2,407,475
Commercial real estate, owner occupied									
Pass	260,725	316,665	330,441	114,015	63,816	81,286	33,123	3,378	1,203,449
Special Mention	7,744	6,125	2,245	3,481	1,210	2,984	1,328	—	25,117
Substandard	3,124	1,214	2,376	1,608	2,920	6,720	—	—	17,962
Total Commercial real estate, owner occupied	271,593	324,004	335,062	119,104	67,946	90,990	34,451	3,378	1,246,528
Residential									
Pass	758,161	489,301	401,353	114,420	77,768	229,812	5,365	46	2,076,226
Special Mention	2,839	2,924	1,972	513	396	2,588	34	—	11,266
Substandard	1,399	1,824	1,811	805	1,468	1,741	60	55	9,163
Total Residential	762,399	494,049	405,136	115,738	79,632	234,141	5,459	101	2,096,655
Home equity									
Pass	40,768	75,670	14,621	1,572	1,348	3,325	486,924	281	624,509
Special Mention	—	—	—	—	115	8	3,698	—	3,821
Substandard	—	79	—	—	65	60	2,098	—	2,302
Total Home Equity	40,768	75,749	14,621	1,572	1,528	3,393	492,720	281	630,632
Individuals' loans for household and other personal expenditures									
Pass	67,883	43,639	13,025	5,389	5,830	3,775	35,091	—	174,632
Special Mention	178	134	77	33	28	17	16	—	483
Substandard	1	—	3	—	84	8	—	—	96
Total Individuals' loans for household and other personal expenditures	68,062	43,773	13,105	5,422	5,942	3,800	35,107	—	175,211
Public finance and other commercial loans									
Pass	187,125	212,702	165,019	98,687	43,760	204,719	20,880	—	932,892
Total Public finance and other commercial loans	187,125	212,702	165,019	98,687	43,760	204,719	20,880	—	932,892
Loans	\$ 3,483,295	\$ 2,680,834	\$ 1,843,080	\$ 686,065	\$ 385,461	\$ 828,159	\$ 2,084,096	\$ 12,904	\$ 12,003,894

PART I. FINANCIAL INFORMATION
ITEM 1. NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(table dollar amounts in thousands, except share data)
(Unaudited)

Total past due loans equaled \$76.3 million as of September 30, 2023 representing a \$25.3 million increase from \$51.0 million at December 31, 2022. The 30-59 days past due loans decreased \$3.2 million from December 31, 2022. The 60-89 days past due loans increased \$12.7 million from December 31, 2022 as commercial and industrial, commercial real estate, owner occupied and residential segments increased \$2.8 million, \$1.2 million and \$8.1 million, respectively. The 90 days or more past due loans increased \$15.8 million from December 31, 2022 as commercial and industrial, commercial real estate, non-owner occupied and residential segments increased \$6.9 million, \$5.9 million and \$3.1 million, respectively. The tables below show a past due aging of the Corporation's loan portfolio, by loan class, as of the dates indicated:

	September 30, 2023					Loans > 90 Days or More Past Due And Accruing
	Current	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total	
Commercial and industrial loans	\$ 3,474,368	\$ 4,005	\$ 3,224	\$ 9,356	\$ 3,490,953	\$ 12
Agricultural land, production and other loans to farmers	233,811	—	—	27	233,838	—
Real estate loans:						
Construction	1,021,537	300	424	—	1,022,261	—
Commercial real estate, non-owner occupied	2,343,002	4,603	1,913	11,078	2,360,596	—
Commercial real estate, owner occupied	1,150,029	2,368	1,225	85	1,153,707	—
Residential	2,227,184	10,884	10,405	8,912	2,257,385	39
Home equity	602,829	2,878	1,325	2,320	609,352	38
Individuals' loans for household and other personal expenditures	175,605	773	145	—	176,523	—
Public finance and other commercial loans	966,774	33	—	—	966,807	—
Loans	<u>\$ 12,195,139</u>	<u>\$ 25,844</u>	<u>\$ 18,661</u>	<u>\$ 31,778</u>	<u>\$ 12,271,422</u>	<u>\$ 89</u>

	December 31, 2022					Loans > 90 Days or More Past Due And Accruing
	Current	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total	
Commercial and industrial loans	\$ 3,429,314	\$ 4,904	\$ 434	\$ 2,474	\$ 3,437,126	\$ 1,147
Agricultural land, production and other loans to farmers	241,739	—	—	54	241,793	—
Real estate loans:						
Construction	832,716	2,436	418	12	835,582	—
Commercial real estate, non-owner occupied	2,395,495	5,946	881	5,153	2,407,475	264
Commercial real estate, owner occupied	1,241,714	4,495	—	319	1,246,528	—
Residential	2,079,959	8,607	2,278	5,811	2,096,655	—
Home equity	624,543	2,206	1,782	2,101	630,632	326
Individuals' loans for household and other personal expenditures	174,629	343	142	97	175,211	—
Public finance and other commercial loans	932,778	114	—	—	932,892	—
Loans	<u>\$ 11,952,887</u>	<u>\$ 29,051</u>	<u>\$ 5,935</u>	<u>\$ 16,021</u>	<u>\$ 12,003,894</u>	<u>\$ 1,737</u>

Loans are reclassified to a nonaccruing status when, in management's judgment, the collateral value and financial condition of the borrower do not justify accruing interest. At the time the accrual is discontinued, all unpaid accrued interest is reversed against earnings. Interest income accrued in prior years, if any, is charged to the allowance for credit losses. Payments subsequently received on nonaccrual loans are applied to principal. A loan is returned to accrual status when principal and interest are no longer past due and collectability is probable, typically after a minimum of six consecutive months of performance.

The following table summarizes the Corporation's nonaccrual loans by loan class as of the dates indicated:

	September 30, 2023		December 31, 2022	
	Nonaccrual Loans	Nonaccrual Loans with no Allowance for Credit Losses	Nonaccrual Loans	Nonaccrual Loans with no Allowance for Credit Losses
Commercial and industrial loans	\$ 14,737	\$ 1,020	\$ 3,292	\$ 481
Agricultural land, production and other loans to farmers	61	—	54	—
Real estate loans:				
Construction	724	—	12	—
Commercial real estate, non-owner occupied	11,575	11,293	19,374	280
Commercial real estate, owner occupied	3,125	2,314	3,550	2,784
Residential	20,244	—	13,685	702
Home equity	2,534	—	2,247	—
Individuals' loans for household and other personal expenditures	102	—	110	—
Loans	<u>\$ 53,102</u>	<u>\$ 14,627</u>	<u>\$ 42,324</u>	<u>\$ 4,247</u>

PART I. FINANCIAL INFORMATION
ITEM 1. NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(table dollar amounts in thousands, except share data)
(Unaudited)

Interest income on nonaccrual loans is recognized only to the extent that cash payments are received in excess of principal due. There was no interest income recognized on nonaccrual loans for the three and nine months ended September 30, 2023 or 2022.

Determining fair value for collateral dependent loans requires obtaining a current independent appraisal of the collateral and applying a discount factor, which includes selling costs if applicable, to the value. The fair value of real estate is generally based on appraisals by qualified licensed appraisers. The appraisers typically determine the value of the real estate by utilizing an income or market valuation approach. If an appraisal is not available, the fair value may be determined by using a cash flow analysis. Fair value on other collateral such as business assets is typically ascertained by assessing, either singularly or some combination of, asset appraisals, accounts receivable aging reports, inventory listings and or customer financial statements. Both appraised values and values based on borrower's financial information are discounted as considered appropriate based on age and quality of the information and current market conditions.

The tables below present the amortized cost basis of collateral dependent loans by loan class and their respective collateral type, which are individually evaluated to determine expected credit losses. The total collateral dependent loan balance decreased \$9.5 million, primarily related to a \$9.4 million decrease in commercial real estate, non-owner occupied for the nine months ended September 30, 2023. The total related allowance balance increased \$3.4 million, primarily related to an increase of \$6.2 million in commercial and industrial, offset by a \$2.0 million decrease in commercial real estate, non-owner occupied for the nine months ended September 30, 2023.

	September 30, 2023				Allowance on Collateral Dependent Loans
	Commercial Real Estate	Residential Real Estate	Other	Total	
Commercial and industrial loans	\$ —	\$ —	\$ 39,343	\$ 39,343	\$ 14,542
Real estate loans:					
Construction	—	8	—	8	1
Commercial real estate, non-owner occupied	17,145	—	—	17,145	57
Commercial real estate, owner occupied	10,568	—	—	10,568	—
Residential	—	1,464	—	1,464	235
Home equity	—	227	—	227	31
Loans	<u>\$ 27,713</u>	<u>\$ 1,699</u>	<u>\$ 39,343</u>	<u>\$ 68,755</u>	<u>\$ 14,866</u>

	December 31, 2022				Allowance on Collateral Dependent Loans
	Commercial Real Estate	Residential Real Estate	Other	Total	
Commercial and industrial loans	\$ —	\$ —	\$ 42,101	\$ 42,101	\$ 8,367
Real estate loans:					
Construction	—	10	—	10	1
Commercial real estate, non-owner occupied	26,534	—	—	26,534	2,064
Commercial real estate, owner occupied	6,986	—	—	6,986	776
Residential	—	2,382	—	2,382	260
Home equity	—	289	—	289	44
Loans	<u>\$ 33,520</u>	<u>\$ 2,681</u>	<u>\$ 42,101</u>	<u>\$ 78,302</u>	<u>\$ 11,512</u>

In certain situations, the Corporation may modify the terms of a loan to a debtor experiencing financial difficulty. The modifications may include principal forgiveness, interest rate reductions, payment delays, term extensions or combinations of the above. The following tables present the amortized cost basis of loans at September 30, 2023 that were both experiencing financial difficulty and modified during the three and nine months ended September 30, 2023, by class and by type of modification. The percentage of the amortized cost basis of loans that were modified to borrowers in financial distress as compared to the amortized cost basis of each class of financing receivable is also presented below.

	Three Months Ended September 30, 2023					% of Total Class of Financing Receivable
	Payment Delay	Term Extension	Combination Interest Rate Reduction & Term Extension	Combination Payment Delay & Term Extension		
Commercial and industrial loans	\$ 908	\$ 7,734	\$ 134	\$ —		0.25 %
Real estate loans:						
Commercial real estate, non-owner occupied	—	11,823	—	—		0.50 %
Commercial real estate, owner occupied	—	6,950	—	—		0.60 %
Home equity	—	63	—	—		0.01 %
Individuals' loans for household and other personal expenditures	—	—	—	1		— %
Total	<u>\$ 908</u>	<u>\$ 26,570</u>	<u>\$ 134</u>	<u>\$ 1</u>		

PART I. FINANCIAL INFORMATION
ITEM 1. NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(table dollar amounts in thousands, except share data)
(Unaudited)

Nine Months Ended September 30, 2023						
Loan Modifications Made to Borrowers Experiencing Financial Difficulty						
	Payment Delay	Term Extension	Combination Interest Rate Reduction & Term Extension	Combination Payment Delay & Term Extension	% of Total Class of Financing Receivable	
Commercial and industrial loans	\$ 908	\$ 14,822	\$ 239	\$ —		0.46 %
Agricultural land, production and other loans to farmers	—	34	—	—		0.01 %
Real estate loans:						
Construction	—	13	—	—		— %
Commercial real estate, non-owner occupied	—	11,823	5,942	—		0.75 %
Commercial real estate, owner occupied	5,602	8,642	75	—		1.24 %
Residential	—	—	—	472		0.02 %
Home equity	—	63	—	—		0.01 %
Individuals' loans for household and other personal expenditures	—	—	—	1		— %
Total	<u>\$ 6,510</u>	<u>\$ 35,397</u>	<u>\$ 6,256</u>	<u>\$ 473</u>		

The following tables present the financial effect of the loan modifications presented above to borrowers experiencing financial difficulty for the three and nine months ended September 30, 2023.

Three Months Ended September 30, 2023				
Financial Effect of Loan Modifications				
	Payment Delay	Term Extension	Combination Interest Rate Reduction & Term Extension	Combination Payment Delay & Term Extension
Commercial and industrial loans	Provided payment deferrals with weighted average delayed amounts of \$24,000.	Extended loans by a weighted average of 8 months	Reduced the weighted average contractual interest rate from 10.75% to 7.62%. Extended loans by a weighted average of 14 months.	
Real estate loans:				
Commercial real estate, non-owner occupied		Extended loans by a weighted average of 11 months.		
Commercial real estate, owner occupied		Extended loans by a weighted average of 4 months.		
Residential				Provided payment deferrals with weighted average delayed amounts of \$300. Extended loans by a weighted average of 3 months.
Home equity		Extended loans by a weighted average of 5 months.		

PART I. FINANCIAL INFORMATION
ITEM 1. NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(table dollar amounts in thousands, except share data)
(Unaudited)

	Nine Months Ended September 30, 2023			
	Financial Effect of Loan Modifications			
	Payment Delay	Term Extension	Combination Interest Rate Reduction & Term Extension	Combination Payment Delay & Term Extension
Commercial and industrial loans	Provided payment deferrals with weighted average delayed amounts of \$24,000	Extended loans by a weighted average of 8 months.	Reduced the weighted average contractual interest rate from 9.66% to 7.39%. Extended loans by a weighted average of 13 months.	
Agricultural land, production and other loans to farmers		Extended loans by a weighted average of 60 months.		
Real estate loans:				
Construction		Extended loans by a weighted average of 24 months.		
Commercial real estate, non-owner occupied		Extended loans by a weighted average of 10 months.	Reduced the weighted average contractual interest rate from 7.81% to 7.40%. Extended loans by a weighted average of 41 months.	
Commercial real estate, owner occupied	Provided payment deferrals with weighted average delayed amounts of \$4.5 million.	Extended loans by a weighted average of 4 months.	Reduced the weighted average contractual interest rate from 10.25% to 6.61%. Extended loans by a weighted average of 114 months.	
Residential				Provided payment deferrals with weighted average delayed amounts \$3,400. Extended loans by a weighted average of 3 months.
Home equity		Extended loans by a weighted average of 5 months.		Provided payment deferrals with weighted average delayed amounts \$300. Extended loans by a weighted average of 3 months.

The following tables present the amortized cost basis and payment status of loans that were modified during the three and nine months ended September 30, 2023 due to the borrowers experiencing financial difficulty.

	Three Months Ended September 30, 2023	
	Payment Status	
	Current	30-89 Days Past Due
Commercial and industrial loans	\$ 8,776	\$ —
Real estate loans:		
Commercial real estate, non-owner occupied	11,823	—
Commercial real estate, owner occupied	6,950	—
Home equity	63	—
Individuals' loans for household and other personal expenditures	—	1
Total	<u>\$ 27,612</u>	<u>\$ 1</u>

	Nine Months Ended September 30, 2023	
	Payment Status	
	Current	30-89 Days Past Due
Commercial and industrial loans	\$ 15,863	\$ 106
Agricultural land, production and other loans to farmers	34	—
Real estate loans:		
Construction	13	—
Commercial real estate, non-owner occupied	17,765	—
Commercial real estate, owner occupied	13,157	1,162
Residential	472	—
Home equity	63	—
Individuals' loans for household and other personal expenditures	—	1
Total	<u>\$ 47,367</u>	<u>\$ 1,269</u>

Upon the Corporation's determination that a modified loan (or portion of a loan) has subsequently been deemed uncollectible, the loan (or portion of the loan) is written off. Therefore, the amortized cost basis of the loan is reduced by the uncollectible amount and the allowance for credit losses is adjusted by the same amount.

PART I. FINANCIAL INFORMATION
ITEM 1. NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(table dollar amounts in thousands, except share data)
(Unaudited)

Purchased Credit Deteriorated Loans

The Corporation acquired Level One on April 1, 2022 and performed an evaluation of the loan portfolio in which there were loans that, at acquisition, had more than an insignificant amount of credit quality deterioration. The carrying amount of those loans is shown in the table below:

		Level One
Purchase price of loans at acquisition	\$	41,347
CECL Day 1 PCD ACL		16,599
Par value of acquired loans at acquisition	\$	57,946

Allowance for Credit Losses on Loans

The Allowance for Credit Losses on Loans ("ACL - Loans") is a valuation account that is deducted from the amortized cost basis of loans to present the net amount expected to be collected on loans over the contractual term. The ACL - Loans is adjusted by the provision for credit losses, which is reported in earnings, and reduced by charge offs for loans, net of recoveries. Provision for credit losses on loans reflects the totality of actions taken on all loans for a particular period including any necessary increases or decreases in the allowance related to changes in credit loss expectations associated with specific loans or pools of loans. Loans are charged off against the allowance when the uncollectibility of the loan is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged off and expected to be charged off.

The allowance represents the Corporation's best estimate of current expected credit losses on loans using relevant available information, from internal and external sources, related to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. The current expected credit loss ("CECL") calculation is performed and evaluated quarterly and losses are estimated over the expected life of the loan. The level of the allowance for credit losses is believed to be adequate to absorb all expected future losses inherent in the loan portfolio at the measurement date.

In calculating the allowance for credit losses, the loan portfolio was pooled into ten loan segments with similar risk characteristics. Common characteristics include the type or purpose of the loan, underlying collateral and historical/expected credit loss patterns. In developing the loan segments, the Corporation analyzed the degree of correlation in how loans within each portfolio respond when subjected to varying economic conditions and scenarios as well as other portfolio stress factors.

The expected credit losses are measured over the life of each loan segment utilizing the Probability of Default / Loss Given Default methodology combined with economic forecast models to estimate the current expected credit loss inherent in the loan portfolio. This approach is also leveraged to estimate the expected credit losses associated with unfunded loan commitments incorporating expected utilization rates.

The Corporation sub-segmented certain commercial portfolios by risk level and certain consumer portfolios by delinquency status where appropriate. The Corporation utilized a four-quarter reasonable and supportable economic forecast period followed by a six-quarter, straight-line reversion period to the historical macroeconomic mean for the remaining life of the loans. Econometric modeling was performed using historical default rates and a selection of economic forecast scenarios published by Moody's to develop a range of estimated credit losses for which to determine the best credit loss estimate within. Macroeconomic factors utilized in the modeling process include the national unemployment rate, BBB US corporate index, CRE price index and the home price index.

The Corporation qualitatively adjusts model results for risk factors that are not inherently considered in the quantitative modeling process, but are nonetheless relevant in assessing the expected credit losses within the loan portfolio. These adjustments may increase or decrease the estimate of expected credit losses based upon the assessed level of risk for each qualitative factor. The various risks that may be considered in making qualitative adjustments include, among other things, the impact of (i) changes in the nature and volume of the loan portfolio, (ii) changes in the existence, growth and effect of any concentrations in credit, (iii) changes in lending policies and procedures, including changes in underwriting standards and practices for collections, write-offs, and recoveries, (iv) changes in the quality of the credit review function, (v) changes in the experience, ability and depth of lending management and staff, and (vi) other environmental factors of a borrower such as regulatory, legal and technological considerations, as well as competition. At CECL adoption, the Corporation established certain qualitative factors that were expected to correlate to losses within the loan portfolio. During a scheduled review of qualitative factors in the third quarter of 2023, the Corporation determined there had been no evidence of correlation to losses for the one qualitative factor that included i) changes in experience, ability and depth of lending management and staff; ii) changes in lending policies and procedures; and iii) changes in the quality of the credit review function. The Corporation decided to refine this qualitative factor by separating it into three individual qualitative factors in order to improve our ability to assess risk for the three different factors and enhance our ability to correlate to losses. The Corporation's evaluation resulted in an insignificant change to the ACL – Loans estimate.

In some cases, management may determine that an individual loan exhibits unique risk characteristics which differentiate the loan from other loans within the loan segments. In such cases, the loans are evaluated for expected credit losses on an individual basis and excluded from the collective evaluation. Specific reserve allocations of the allowance for credit losses are determined by analyzing the borrower's ability to repay amounts owed, collateral deficiencies, the relative risk grade of the loan and economic conditions affecting the borrower's industry, among other things. A loan is considered to be collateral dependent when, based upon management's assessment, the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral. In such cases, expected credit losses are based on the fair value of the collateral at the measurement date, adjusted for estimated selling costs if satisfaction of the loan depends on the sale of the collateral. The fair value of collateral supporting collateral dependent loans is evaluated on a quarterly basis.

PART I. FINANCIAL INFORMATION
ITEM 1. NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(table dollar amounts in thousands, except share data)
(Unaudited)

The risk characteristics of the Corporation's portfolio segments are as follows:

Commercial

Commercial lending is primarily based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not be as expected and the collateral securing these loans may fluctuate in value. Most commercial loans are secured by the tangible assets being financed such as equipment or real estate or other business assets such as accounts receivable or inventory and may incorporate a personal guarantee. Other loans may be unsecured, secured but under-collateralized or otherwise made on the basis of the enterprise value of an organization. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers.

Commercial real estate

Commercial real estate loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate lending typically involves higher loan principal amounts and the repayment of these loans is generally dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. The Corporation monitors commercial real estate loans based on collateral and risk grade criteria, as well as the levels of owner-occupied versus non-owner occupied loans.

Construction

Construction loans are underwritten utilizing a combination of tools and techniques including feasibility and market studies, independent appraisals and appraisal reviews, absorption and interest rate sensitivity analysis as well as the financial analysis of the developer and all guarantors. Construction loans are monitored by either in house or third party inspectors limiting advances to a percentage of costs or stabilized project value. These loans frequently involve the disbursement of significant funds with the repayment dependent upon the successful completion and, where necessary, the future stabilization of the project. The predominant inherent risk of this portfolio is associated with the borrower's ability to successfully complete a project on time, within budget and stabilize the projected as originally projected.

Consumer and Residential

With respect to residential loans that are secured by 1-4 family residences, which are typically owner occupied, the Corporation generally establishes a maximum loan-to-value ratio and requires private mortgage insurance if that ratio is exceeded. Home equity loans are secured by a subordinate interest in 1-4 family residences, and consumer loans are secured by consumer assets such as automobiles or recreational vehicles. Some consumer loans, such as small installment loans and certain lines of credit, are unsecured. Repayment of these loans is primarily dependent on the personal income and credit rating of the borrowers and can also be impacted by changes in property values. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

The allowance for credit losses decreased \$15.4 million and \$17.5 million, due to net charge-offs during the three and nine months ended September 30, 2023, respectively. There were two large commercial and industrial loan charge-offs of \$13.7 million and \$5.4 million in the third quarter of 2023. These charge-offs, along with related specific reserves, materially represent the entire credit risk on the loans that were idiosyncratic in nature and are not indicative of a larger portfolio credit issue. There was \$5.0 million in provision for credit losses during the three and nine months ended September 30, 2023. The allowance for credit losses increased \$427,000 and \$31.3 million for the three and nine months ended September 30, 2022, respectively. The increase for the nine months ended September 30, 2022 was primarily due to \$16.6 million of allowance for credit losses on PCD loans acquired in the Level One acquisition established through accounting adjustments on the acquisition date. In addition, \$14.0 million was recorded to establish an allowance for credit losses on non-PCD loans acquired in the Level One acquisition. The following tables summarize changes in the allowance for credit losses by loan segment for the three and nine months ended September 30, 2023 and 2022:

	Three Months Ended September 30, 2023				
	Commercial	Commercial Real Estate	Construction	Consumer & Residential	Total
Allowance for credit losses					
Balances, June 30, 2023	\$ 108,373	\$ 39,157	\$ 30,073	\$ 43,544	\$ 221,147
Provision for credit losses	3,020	4,901	140	(3,061)	5,000
Recoveries on loans	179	—	—	367	546
Loans charged off	(19,833)	—	—	(1,078)	(20,911)
Balances, September 30, 2023	<u>\$ 91,739</u>	<u>\$ 44,058</u>	<u>\$ 30,213</u>	<u>\$ 39,772</u>	<u>\$ 205,782</u>

	Nine Months Ended September 30, 2023				
	Commercial	Commercial Real Estate	Construction	Consumer & Residential	Total
Allowance for credit losses					
Balances, December 31, 2022	\$ 102,216	\$ 46,839	\$ 28,955	\$ 45,267	\$ 223,277
Provision for credit losses	9,460	(2,833)	1,258	(2,885)	5,000
Recoveries on loans	775	56	—	1,004	1,835
Loans charged off	(20,712)	(4)	—	(3,614)	(24,330)
Balances, September 30, 2023	<u>\$ 91,739</u>	<u>\$ 44,058</u>	<u>\$ 30,213</u>	<u>\$ 39,772</u>	<u>\$ 205,782</u>

PART I. FINANCIAL INFORMATION
ITEM 1. NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(table dollar amounts in thousands, except share data)
(Unaudited)

	Three Months Ended September 30, 2022				
	Commercial	Commercial Real Estate	Construction	Consumer & Residential	Total
Allowance for credit losses					
Balances, June 30, 2022	\$ 94,228	\$ 55,328	\$ 27,401	\$ 49,318	\$ 226,275
Provision for credit losses	10,142	(7,054)	186	(3,274)	—
Recoveries on loans	81	188	824	222	1,315
Loans charged off	(306)	(1)	—	(581)	(888)
Balances, September 30, 2022	<u>\$ 104,145</u>	<u>\$ 48,461</u>	<u>\$ 28,411</u>	<u>\$ 45,685</u>	<u>\$ 226,702</u>

	Nine Months Ended September 30, 2022				
	Commercial	Commercial Real Estate	Construction	Consumer & Residential	Total
Allowance for credit losses					
Balances, December 31, 2021	\$ 69,935	\$ 60,665	\$ 20,206	\$ 44,591	\$ 195,397
Provision for credit losses	18,518	(21,697)	5,862	(2,683)	—
CECL Day 1 non-PCD provision for credit losses	2,957	5,539	871	4,588	13,955
CECL Day 1 PCD ACL	12,970	2,981	648	—	16,599
Recoveries on loans	789	1,096	824	827	3,536
Loans charged off	(1,024)	(123)	—	(1,638)	(2,785)
Balances, September 30, 2022	<u>\$ 104,145</u>	<u>\$ 48,461</u>	<u>\$ 28,411</u>	<u>\$ 45,685</u>	<u>\$ 226,702</u>

Off-Balance Sheet Arrangements, Commitments And Contingencies

In the normal course of business, the Corporation has entered into off-balance sheet financial instruments which include commitments to extend credit and standby letters of credit. Commitments to extend credit are usually the result of lines of credit granted to existing borrowers under agreements that the total outstanding indebtedness will not exceed a specific amount during the term of the indebtedness. Typical borrowers are commercial customers that use lines of credit to supplement their treasury management functions, and thus their total outstanding indebtedness may fluctuate during any time period based on the seasonality of their business and the resultant timing for their cash flows. Other typical lines of credit are related to home equity loans granted to customers. Commitments to extend credit generally have fixed expiration dates or other termination clauses that may require a fee.

Standby letters of credit are generally issued on behalf of an applicant (the Corporation's customer) to a specifically named beneficiary and are the result of a particular business arrangement that exists between the applicant and the beneficiary. Standby letters of credit have fixed expiration dates and are usually for terms of two years or less unless terminated beforehand due to criteria specified in the standby letter of credit. The standby letter of credit would permit the beneficiary to obtain payment from the Corporation under certain prescribed circumstances. Subsequently, the Corporation would seek reimbursement from the applicant pursuant to the terms of the standby letter of credit.

The Corporation typically follows the same credit policies and underwriting practices when making these commitments as it does for on-balance sheet instruments. Each customer's creditworthiness is typically evaluated on a case-by-case basis, and the amount of collateral obtained, if any, is based on management's credit evaluation of the customer. Collateral held varies but may include cash, real estate, marketable securities, accounts receivable, inventory, equipment and personal property.

The contractual amounts of these commitments are not reflected in the consolidated financial statements and only amounts drawn upon would be reflected in the future. Since many of the commitments are expected to expire without being drawn upon, the contractual amounts do not necessarily represent future cash requirements. However, should the commitments be drawn upon and should the Corporation's customers default on their resulting obligation to the Corporation, the maximum exposure to credit loss, without consideration of collateral, is represented by the contractual amount of those commitments.

Financial instruments with off-balance sheet risk were as follows:

	September 30, 2023	December 31, 2022
Amounts of commitments:		
Loan commitments to extend credit	\$ 5,074,572	\$ 4,950,724
Standby letters of credit	\$ 39,812	\$ 40,784

PART I. FINANCIAL INFORMATION
ITEM 1. NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(table dollar amounts in thousands, except share data)
(Unaudited)

The adoption of the CECL methodology for measuring credit losses on January 1, 2021 resulted in an accrual for off-balance sheet commitments of \$20.5 million. The Level One acquisition was responsible for an additional \$2.8 million of provision for credit losses associated with off-balance sheet commitments, resulting in a total allowance for credit losses on off-balance sheet commitments of \$23.3 million. Reserves for unfunded commitments were reduced by \$3.0 million for the three and nine months ended September 30, 2023 due to a decline in unfunded commitment balances, resulting in a decrease in the reserve to \$20.3 million. This reserve level is deemed appropriate by the Corporation and is reported in Other Liabilities as of September 30, 2023 in the Consolidated Condensed Balance Sheets.

The table below reflects the total allowance for credit losses for the off-balance sheet commitment for the three and nine months ended September 30, 2023 and 2022:

	Three Months Ended		Nine Months Ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Balance at beginning of the period	\$ 23,300	\$ 23,300	\$ 23,300	\$ 20,500
Provision for credit losses - unfunded commitments related to Level One	—	—	—	2,800
Provision for credit losses - unfunded commitments	(3,000)	—	(3,000)	—
Ending balance	<u>\$ 20,300</u>	<u>\$ 23,300</u>	<u>\$ 20,300</u>	<u>\$ 23,300</u>

NOTE 5

GOODWILL

Goodwill is recorded on the acquisition date of an entity. The Corporation has one year after the acquisition date, the measurement period, to record subsequent adjustments to goodwill for provisional amounts recorded at the acquisition date. The Level One acquisition on April 1, 2022 resulted in \$166.6 million of goodwill. Details regarding the Level One acquisition are discussed in NOTE 2. ACQUISITIONS of these Notes to Consolidated Condensed Financial Statements. There have been no changes in goodwill since December 31, 2022. As such, the balance as of September 30, 2023 was \$712.0 million.

	2022
Balance, January 1	\$ 545,385
Goodwill acquired	166,617
Balance, December 31	<u>\$ 712,002</u>

NOTE 6

OTHER INTANGIBLES

Core deposit intangibles and other intangibles are recorded on the acquisition date of an entity. The Corporation has one year after the acquisition date, the measurement period, to record subsequent adjustments to these intangibles for provisional amounts recorded at the acquisition date. The Level One acquisition on April 1, 2022 resulted in a core deposit intangible of \$17.2 million and other intangibles, consisting of non-compete intangibles, of \$1.4 million. Details regarding the Level One acquisition are discussed in NOTE 2. ACQUISITIONS of these Notes to Consolidated Condensed Financial Statements. The carrying basis and accumulated amortization of recognized core deposit intangibles and other intangibles are noted below.

	September 30, 2023	December 31, 2022
Gross carrying amount	\$ 123,285	\$ 104,643
Other intangibles acquired	—	18,642
Accumulated amortization	(94,004)	(87,443)
Total core deposit and other intangibles	<u>\$ 29,281</u>	<u>\$ 35,842</u>

PART I. FINANCIAL INFORMATION
ITEM 1. NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(table dollar amounts in thousands, except share data)
(Unaudited)

The core deposit intangibles and other intangibles are being amortized primarily on an accelerated basis over their estimated useful lives, generally over a period of two years to ten years. Intangible amortization expenses for each of the three and nine months ended September 30, 2023 were \$2.2 million and \$6.6 million, respectively. This was compared to the three and nine months ended September 30, 2022 which were \$2.3 million and \$6.0 million, respectively. Estimated future amortization expense is summarized as follows:

	Amortization Expense
2023	\$ 2,183
2024	7,271
2025	6,028
2026	4,910
2027	3,603
After 2027	5,286
	<u>\$ 29,281</u>

NOTE 7

DERIVATIVE FINANCIAL INSTRUMENTS

Risk Management Objective of Using Derivatives

The Corporation is exposed to certain risks arising from both its business operations and economic conditions. The Corporation principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Corporation manages economic risks, including interest rate, liquidity, and credit risk, primarily by managing the amount, sources, and duration of its assets and liabilities and through the use of derivative financial instruments. Specifically, the Corporation enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Corporation's derivative financial instruments are used to manage differences in the amount, timing, and duration of the Corporation's known or expected cash payments principally related to certain variable-rate liabilities. The Corporation also has derivatives that are a result of a service the Corporation provides to certain qualifying customers, and, therefore, are not used to manage interest rate risk in the Corporation's assets or liabilities. The Corporation manages a matched book with respect to its derivative instruments offered as a part of this service to its customers in order to minimize its net risk exposure resulting from such transactions.

Derivatives Designated as Hedges

The Corporation's objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish these objectives, the Corporation primarily uses interest rate swaps and interest rate caps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the payment of fixed amounts to a counterparty in exchange for the Corporation receiving variable payments over the life of the agreements without exchange of the underlying notional amount. Interest rate caps designated as cash flow hedges involve the receipt of variable amounts from a counterparty if interest rates rise above the strike rate on the contract in exchange for an up-front premium. As of December 31, 2022, the Corporation had one interest rate swap with a notional amount of \$10.0 million that was used to hedge the variable cash outflows (SOFR-based) associated with one Federal Home Loan Bank advance. This interest swap matured in the third quarter of 2023.

PART I. FINANCIAL INFORMATION
ITEM 1. NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(table dollar amounts in thousands, except share data)
(Unaudited)

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in accumulated other comprehensive income (loss) and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During 2023, \$10.0 million of interest rate swaps were used to hedge the variable cash outflows (SOFR-based) associated with one Federal Home Loan Bank advance. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. During the three and nine months ended September 30, 2023 and 2022, the Corporation did not recognize any ineffectiveness.

Amounts reported in accumulated other comprehensive loss related to derivatives will be reclassified to interest expense as interest payments are made on the Corporation's variable-rate liabilities. During the next twelve months, the Corporation doesn't expect to reclassify income (loss) from accumulated other comprehensive loss to interest income.

The following table summarizes the Corporation's derivatives designated as hedges:

	Asset Derivatives				Liability Derivatives			
	September 30, 2023		December 31, 2022		September 30, 2023		December 31, 2022	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Cash flow hedges:								
Interest rate swaps on borrowings	Other Assets	\$ —	Other Assets	\$ 164	Other Liabilities	\$ —	Other Liabilities	\$ —

The amount of gain (loss) recognized in other comprehensive income (loss) is included in the table below for the periods indicated.

Derivatives in Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in Other Comprehensive Income (Loss) on Derivatives (Effective Portion)			
	Three Months Ended		Nine Months Ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Interest Rate Products	\$ (66)	\$ 94	\$ (179)	\$ 507

The amount of gain (loss) reclassified from other comprehensive income (loss) into income related to cash flow hedging relationships is included in the table below for the periods indicated.

Derivatives Designated as Hedging Instruments	Location of Gain (Loss) Recognized Income on Derivative	Amount of Gain (Loss) Reclassified from Other Comprehensive Income (Loss) into Income (Effective Portion)	
		Three Months Ended September 30, 2023	Three Months Ended September 30, 2022
Interest rate contracts	Interest Expense	\$ —	\$ (78)

Derivatives Designated as Hedging Instruments	Location of Gain (Loss) Recognized Income on Derivative	Amount of Gain (Loss) Reclassified from Other Comprehensive Income (Loss) into Income (Effective Portion)	
		Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Interest rate contracts	Interest Expense	\$ (15)	\$ (496)

Non-designated Hedges

The Corporation does not use derivatives for trading or speculative purposes. Derivatives not designated as hedges are not speculative and result from a service the Corporation provides to certain customers. The Corporation executes interest rate swaps with commercial banking customers to facilitate their respective risk management strategies. Those interest rate swaps are simultaneously hedged by offsetting interest rate swaps that the Corporation executes with a third party, such that the Corporation minimizes its net risk exposure resulting from such transactions. As the interest rate swaps associated with this program do not meet the strict hedge accounting requirements, changes in the fair value of both the customer swaps and the offsetting swaps are recognized directly in earnings.

Commitments to fund certain mortgage loans (interest rate locks) to be sold into the secondary market and forward commitments for the future delivery of mortgage loans to third party investors are considered derivatives. It is the Corporation's practice to enter into forward commitments for the future delivery of residential mortgage loans when interest rate lock commitments are entered into in order to economically hedge the effect of changes in interest rates resulting from its commitments to fund the loans. These mortgage banking derivatives are not designated in hedge relationships. Fair values were estimated based on changes in mortgage interest rates from the date of the commitments. Changes in the fair value of these mortgage banking derivatives are included in net gains and fees on sales of loans.

PART I. FINANCIAL INFORMATION
ITEM 1. NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(table dollar amounts in thousands, except share data)
(Unaudited)

The table below presents the fair value of the Corporation's non-designated hedges, as well as their classification on the Balance Sheet, as of September 30, 2023, and December 31, 2022.

	September 30, 2023		December 31, 2022	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Included in other assets:				
Interest rate swaps	\$ 1,321,737	\$ 113,691	\$ 1,184,866	\$ 92,652
Forward contracts related to mortgage loans to be delivered for sale	66,301	768	14,406	188
Interest rate lock commitments	10,761	82	5,049	32
Included in other assets	\$ 1,398,799	\$ 114,541	\$ 1,204,321	\$ 92,872
Included in other liabilities:				
Interest rate swaps	\$ 1,321,737	\$ 113,740	\$ 1,184,866	\$ 92,652
Forward contracts related to mortgage loans to be delivered for sale	14,847	36	4,483	63
Interest rate lock commitments	29,334	238	7,549	55
Included in other liabilities	\$ 1,365,918	\$ 114,014	\$ 1,196,898	\$ 92,770

In the normal course of business, the Corporation may decide to settle a forward contract rather than fulfill the contract. Cash received or paid in this settlement manner is included in "Net gains and fees on sales of loans" in the Consolidated Condensed Statements of Income and is considered a cost of executing a forward contract. The amount of gain (loss) recognized into income related to non-designated hedging instruments is included in the table below for the periods indicated.

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized Income on Derivative	Amount of Gain (Loss) Recognized into Income on Derivatives	
		Three Months Ended September 30, 2023	Three Months Ended September 30, 2022
		Forward contracts related to mortgage loans to be delivered for sale	Net gains and fees on sales of loans
Interest rate lock commitments	Net gains and fees on sales of loans	(100)	(350)
Total net gain/(loss) recognized in income		\$ 882	\$ (113)

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized Income on Derivative	Amount of Gain (Loss) Recognized into Income on Derivatives	
		Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
		Forward contracts related to mortgage loans to be delivered for sale	Net gains and fees on sales of loans
Interest rate lock commitments	Net gains and fees on sales of loans	(133)	(235)
Total net gain/(loss) recognized in income		\$ 1,558	\$ 758

The Corporation's exposure to credit risk occurs because of nonperformance by its counterparties. The counterparties approved by the Corporation are usually financial institutions, which are well capitalized and have credit ratings through Moody's and/or Standard & Poor's at or above investment grade. The Corporation's control of such risk is through quarterly financial reviews, comparing mark-to-market values with policy limitations, credit ratings and collateral pledging.

Credit-risk-related Contingent Features

The Corporation has agreements with certain of its derivative counterparties that contain a provision where if the Corporation fails to maintain its status as a well or adequately capitalized institution, then the Corporation could be required to terminate or fully collateralize all outstanding derivative contracts. Additionally, the Corporation has agreements with certain of its derivative counterparties that contain a provision where if the Corporation defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then the Corporation could also be declared in default on its derivative obligations. As of September 30, 2023, the termination value of derivatives in a net liability position related to these agreements was \$105,000, which resulted in no collateral pledged to counterparties as of September 30, 2023. While the Corporation did not breach any of these provisions as of September 30, 2023, if it had, the Corporation could have been required to settle its obligations under the agreements at their termination value.

PART I. FINANCIAL INFORMATION
ITEM 1. NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(table dollar amounts in thousands, except share data)
(Unaudited)

NOTE 8

FAIR VALUES OF FINANCIAL INSTRUMENTS

The Corporation used fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The accounting guidance defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. ASC 820 applies only when other guidance requires or permits assets or liabilities to be measured at fair value; it does not expand the use of fair value in any new circumstances.

As defined in ASC 820, fair value is the price to sell an asset or transfer a liability in an orderly transaction between market participants. It represents an exit price at the measurement date. Market participants are buyers and sellers, who are independent, knowledgeable, and willing and able to transact in the principal (or most advantageous) market for the asset or liability being measured. Current market conditions, including imbalances between supply and demand, are considered in determining fair value. The Corporation values its assets and liabilities in the principal market where it sells the particular asset or transfers the liability with the greatest volume and level of activity. In the absence of a principal market, the valuation is based on the most advantageous market for the asset or liability (i.e., the market where the asset could be sold or the liability transferred at a price that maximizes the amount to be received for the asset or minimizes the amount to be paid to transfer the liability).

Valuation inputs refer to the assumptions market participants would use in pricing a given asset or liability. Inputs can be observable or unobservable. Observable inputs are those assumptions which market participants would use in pricing the particular asset or liability. These inputs are based on market data and are obtained from a source independent of the Corporation. Unobservable inputs are assumptions based on the Corporation's own information or estimate of assumptions used by market participants in pricing the asset or liability. Unobservable inputs are based on the best and most current information available on the measurement date. All inputs, whether observable or unobservable, are ranked in accordance with a prescribed fair value hierarchy which gives the highest ranking to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest ranking to unobservable inputs for which there is little or no market activity (Level 3). Fair values for assets or liabilities classified as Level 2 are based on one or a combination of the following factors: (i) quoted prices for similar assets; (ii) observable inputs for the asset or liability, such as interest rates or yield curves; or (iii) inputs derived principally from or corroborated by observable market data. The level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Corporation considers an input to be significant if it drives 10 percent or more of the total fair value of a particular asset or liability.

RECURRING MEASUREMENTS

Assets and liabilities are considered to be measured at fair value on a recurring basis if fair value is measured regularly (i.e., daily, weekly, monthly or quarterly). Recurring valuation occurs at a minimum on the measurement date. Assets and liabilities are considered to be measured at fair value on a nonrecurring basis if the fair value measurement of the instrument does not necessarily result in a change in the amount recorded on the balance sheet. Generally, nonrecurring valuation is the result of the application of other accounting pronouncements which require assets or liabilities to be assessed for impairment and recorded at the lower of cost or fair value. The fair value of assets or liabilities transferred in or out of Level 3 is measured on the transfer date, with any additional changes in fair value subsequent to the transfer considered to be realized or unrealized gains or losses.

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Investment Securities

Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include U.S. Treasury securities. Where significant observable inputs, other than Level 1 quoted prices, are available, securities are classified within Level 2 of the valuation hierarchy. Level 2 securities include U.S. Government-sponsored agency and mortgage-backed securities, state and municipal securities and corporate obligations securities. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy and include state and municipal securities, U.S. Government-sponsored mortgage-backed securities and corporate obligations securities. Level 3 fair value for securities was determined using a discounted cash flow model that incorporated market estimates of interest rates and volatility in markets that have not been active.

Third party vendors compile prices from various sources and may apply such techniques as matrix pricing to determine the value of identical or similar investment securities (Level 2). Matrix pricing is a mathematical technique widely used in the banking industry to value investment securities without relying exclusively on quoted prices for specific investment securities but rather relying on the investment securities' relationship to other benchmark quoted investment securities. Any investment security not valued based upon the methods above are considered Level 3.

PART I. FINANCIAL INFORMATION
ITEM 1. NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(table dollar amounts in thousands, except share data)
(Unaudited)

Derivative Financial Agreements

See information regarding the Corporation's derivative financial agreements in NOTE 7. DERIVATIVE FINANCIAL INSTRUMENTS of these Notes to Consolidated Condensed Financial Statements.

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the ASC 820-10 fair value hierarchy in which the fair value measurements fall at September 30, 2023, and December 31, 2022.

September 30, 2023	Fair Value	Fair Value Measurements Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available for sale securities:				
U.S. Treasury	\$ 1,713	\$ 1,713	\$ —	\$ —
U.S. Government-sponsored agency securities	93,585	—	93,585	—
State and municipal	973,056	—	969,863	3,193
U.S. Government-sponsored mortgage-backed securities	419,963	—	419,959	4
Corporate obligations	11,819	—	11,788	31
Derivative assets	114,541	—	114,541	—
Derivative liabilities	114,014	—	114,014	—

December 31, 2022	Fair Value	Fair Value Measurements Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available for sale securities:				
U.S. Treasury	\$ 2,459	\$ 2,459	\$ —	\$ —
U.S. Government-sponsored agency securities	101,962	—	101,962	—
State and municipal	1,351,760	—	1,348,356	3,404
U.S. Government-sponsored mortgage-backed securities	508,273	—	508,269	4
Corporate obligations	12,207	—	12,176	31
Derivative assets	93,036	—	93,036	—
Derivative liabilities	92,770	—	92,770	—

Level 3 Reconciliation

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying balance sheets using significant unobservable Level 3 inputs for the three and nine months ended September 30, 2023 and 2022.

	Available for Sale Securities			
	Three Months Ended		Nine Months Ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Balance at beginning of the period	\$ 3,348	\$ 8,630	\$ 3,439	\$ 5,491
Included in other comprehensive income	(30)	29	(28)	(597)
Purchases, issuances and settlements	—	—	—	5,111
Principal payments	(90)	(3,152)	(183)	(4,498)
Ending balance	\$ 3,228	\$ 5,507	\$ 3,228	\$ 5,507

There were no gains or losses included in earnings that were attributable to the changes in unrealized gains or losses related to assets or liabilities held at September 30, 2023 or December 31, 2022.

PART I. FINANCIAL INFORMATION
ITEM 1. NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(table dollar amounts in thousands, except share data)
(Unaudited)

Transfers Between Levels

There were no transfers in or out of Level 3 during the three and nine months ended September 30, 2023 and 2022.

Nonrecurring Measurements

Following is a description of valuation methodologies used for instruments measured at fair value on a nonrecurring basis and recognized in the accompanying balance sheets, as well as the general classification of such instruments pursuant to the valuation hierarchy at September 30, 2023, and December 31, 2022.

September 30, 2023	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Fair Value Measurements Using	
			Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Collateral dependent loans	\$ 50,607	\$ —	\$ —	\$ 50,607
Other real estate owned	362	—	—	362

December 31, 2022	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Fair Value Measurements Using	
			Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Collateral dependent loans	\$ 55,290	\$ —	\$ —	\$ 55,290

Collateral Dependent Loans and Other Real Estate Owned

Determining fair value for collateral dependent loans and other real estate requires obtaining a current independent appraisal of the collateral and applying a discount factor, which includes selling costs if applicable, to the value. The fair value of real estate is generally based on appraisals by qualified licensed appraisers. The appraisers typically determine the value of the real estate by utilizing an income or market valuation approach. If an appraisal is not available, the fair value may be determined by using a cash flow analysis. Fair value on other collateral such as business assets is typically ascertained by assessing, either singularly or some combination of, asset appraisals, accounts receivable aging reports, inventory listings and or customer financial statements. Both appraised values and values based on borrower's financial information are discounted as considered appropriate based on age and quality of the information and current market conditions.

Unobservable (Level 3) Inputs

The following tables present quantitative information about unobservable inputs used in recurring and nonrecurring Level 3 fair value measurements, other than goodwill, at September 30, 2023 and December 31, 2022.

September 30, 2023	Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted-Average)
State and municipal securities	\$ 3,193	Discounted cash flow	Maturity/Call date	1 month to 15 years
			US Muni BQ curve	BBB
			Discount rate	4.2% - 5.1%
			Weighted-average coupon	3.3%
Corporate obligations and U.S. Government-sponsored mortgage-backed securities	\$ 35	Discounted cash flow	Risk free rate	3 month CME Term SOFR plus 26bps
			plus premium for illiquidity (basis points)	plus 200bps
			Weighted-average coupon	0%
Collateral dependent loans	\$ 50,607	Collateral based measurements	Discount to reflect current market conditions and ultimate collectability	0% - 10%
			Weighted-average discount by loan balance	4.8%
Other real estate owned	\$ 362	Appraisals	Discount to reflect current market conditions	0% - 10%
			Weighted-average discount of other real estate owned balance	7.2%

PART I. FINANCIAL INFORMATION
ITEM 1. NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(table dollar amounts in thousands, except share data)
(Unaudited)

December 31, 2022	Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted-Average)
State and municipal securities	\$ 3,404	Discounted cash flow	Maturity/Call date US Muni BQ curve Discount rate Weighted-average coupon	1 month to 15 years A- to BBB 0.4% - 4% 3.4%
Corporate obligations and U.S. Government-sponsored mortgage-backed securities	\$ 35	Discounted cash flow	Risk free rate plus premium for illiquidity (basis points) Weighted-average coupon	3 month LIBOR plus 200bps 0%
Collateral dependent loans	\$ 55,290	Collateral based measurements	Discount to reflect current market conditions and ultimate collectability Weighted-average discount by loan balance	0% - 10% 1.1%

The following is a discussion of the sensitivity of significant unobservable inputs, the interrelationships between those inputs and other unobservable inputs used in recurring fair value measurement and how those inputs might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement.

State and Municipal Securities, Corporate Obligations and U.S. Government-sponsored Mortgage-Backed Securities

The significant unobservable inputs used in the fair value measurement of the Corporation's state and municipal securities, corporate obligations and U.S. Government-sponsored mortgage-backed securities are premiums for unrated securities and marketability discounts. Significant increases or decreases in either of those inputs in isolation would result in a significantly lower or higher fair value measurement. Generally, changes in either of those inputs will not affect the other input.

Fair Value of Financial Instruments

The following table presents estimated fair values of the Corporation's financial instruments and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 2023 and December 31, 2022.

	September 30, 2023				Total Fair Value
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Assets:					
Cash and due from banks	\$ 125,173	\$ 125,173	\$ —	\$ —	\$ 125,173
Interest-bearing deposits	348,639	348,639	—	—	348,639
Investment securities available for sale	1,500,136	1,713	1,495,195	3,228	1,500,136
Investment securities held to maturity, net	2,213,588	—	1,730,830	10,395	1,741,225
Loans held for sale	30,972	—	30,972	—	30,972
Loans, net	12,065,640	—	—	11,801,546	11,801,546
Federal Home Loan Bank stock	41,797	—	41,797	—	41,797
Derivative assets	114,541	—	114,541	—	114,541
Interest receivable	90,011	—	90,011	—	90,011
Liabilities:					
Deposits	\$ 14,646,576	\$ 12,524,202	\$ 2,104,703	\$ —	\$ 14,628,905
Borrowings:					
Securities sold under repurchase agreements	152,537	—	152,523	—	152,523
Federal Home Loan Bank advances	713,384	—	695,425	—	695,425
Subordinated debentures and other borrowings	158,665	—	135,847	—	135,847
Derivative liabilities	114,014	—	114,014	—	114,014
Interest payable	16,473	—	16,473	—	16,473

PART I. FINANCIAL INFORMATION
ITEM 1. NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(table dollar amounts in thousands, except share data)
(Unaudited)

	December 31, 2022				Total Fair Value
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Assets:					
Cash and due from banks	\$ 122,594	\$ 122,594	\$ —	\$ —	\$ 122,594
Interest-bearing deposits	126,061	126,061	—	—	126,061
Investment securities available for sale	1,976,661	2,459	1,970,763	3,439	1,976,661
Investment securities held to maturity, net	2,287,127	—	1,893,271	14,594	1,907,865
Loans held for sale	9,094	—	9,094	—	9,094
Loans, net	11,780,617	—	—	11,156,217	11,156,217
Federal Home Loan Bank stock	38,525	—	38,525	—	38,525
Derivative assets	93,036	—	93,036	—	93,036
Interest receivable	85,070	—	85,070	—	85,070
Liabilities:					
Deposits	\$ 14,382,745	\$ 13,105,936	\$ 1,251,017	\$ —	\$ 14,356,953
Borrowings:					
Federal funds purchased	171,560	—	171,560	—	171,560
Securities sold under repurchase agreements	167,413	—	167,396	—	167,396
Federal Home Loan Bank advances	823,674	—	615,211	—	615,211
Subordinated debentures and other borrowings	151,298	—	122,102	—	122,102
Derivative liabilities	92,770	—	92,770	—	92,770
Interest payable	7,530	—	7,530	—	7,530

NOTE 9

TRANSFERS ACCOUNTED FOR AS SECURED BORROWINGS

The collateral pledged for all repurchase agreements that are accounted for as secured borrowings as of September 30, 2023 and December 31, 2022 were:

	September 30, 2023				
	Remaining Contractual Maturity of the Agreements				
	Overnight and Continuous	Up to 30 Days	30-90 Days	Greater Than 90 Days	Total
U.S. Government-sponsored mortgage-backed securities	\$ 152,537	\$ —	\$ —	\$ —	\$ 152,537

	December 31, 2022				
	Remaining Contractual Maturity of the Agreements				
	Overnight and Continuous	Up to 30 Days	30-90 Days	Greater Than 90 Days	Total
U.S. Government-sponsored mortgage-backed securities	\$ 167,413	\$ —	\$ —	\$ —	\$ 167,413

PART I. FINANCIAL INFORMATION
ITEM 1. NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(table dollar amounts in thousands, except share data)
(Unaudited)

NOTE 10

ACCUMULATED OTHER COMPREHENSIVE LOSS

The following table summarizes the changes in the balances of each component of accumulated other comprehensive income (loss), net of tax, as of September 30, 2023 and 2022:

	Accumulated Other Comprehensive Income (Loss)			
	Unrealized Gains (Losses) on Securities Available for Sale	Unrealized Gains (Losses) on Cash Flow Hedges	Unrealized Gains (Losses) on Defined Benefit Plans	Total
Balance at December 31, 2022	\$ (234,495)	\$ 130	\$ (4,786)	\$ (239,151)
Other comprehensive loss before reclassifications	(71,633)	(142)	—	(71,775)
Amounts reclassified from accumulated other comprehensive income	3,644	12	—	3,656
Period change	(67,989)	(130)	—	(68,119)
Balance at September 30, 2023	<u>\$ (302,484)</u>	<u>\$ —</u>	<u>\$ (4,786)</u>	<u>\$ (307,270)</u>
Balance at December 31, 2021	\$ 59,774	\$ (660)	\$ (4,001)	\$ 55,113
Other comprehensive income (loss) before reclassifications	(369,096)	400	—	(368,696)
Amounts reclassified from accumulated other comprehensive income	(898)	392	—	(506)
Period change	(369,994)	792	—	(369,202)
Balance at September 30, 2022	<u>\$ (310,220)</u>	<u>\$ 132</u>	<u>\$ (4,001)</u>	<u>\$ (314,089)</u>

The following tables present the reclassification adjustments out of accumulated other comprehensive income (loss) that were included in net income in the Consolidated Condensed Statements of Income for the three and nine months ended September 30, 2023 and 2022.

Details about Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified from Accumulated Other Comprehensive Income (Loss) For the Three Months Ended September 30,		Affected Line Item in the Statements of Income
	2023	2022	
Unrealized gains (losses) on available for sale securities ⁽¹⁾			
Realized securities gains (losses) reclassified into income	\$ (1,650)	\$ 481	Other income - net realized gains (losses) on sales of available for sale securities
Related income tax benefit (expense)	346	(101)	Income tax expense
	<u>\$ (1,304)</u>	<u>\$ 380</u>	
Unrealized gains (losses) on cash flow hedges ⁽²⁾			
Interest rate contracts	\$ —	\$ (78)	Interest expense - subordinated debentures and term loans
Related income tax benefit (expense)	—	16	Income tax expense
	<u>\$ —</u>	<u>\$ (62)</u>	
Total reclassifications for the period, net of tax	<u>\$ (1,304)</u>	<u>\$ 318</u>	

Details about Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified from Accumulated Other Comprehensive Income (Loss) For the Nine Months Ended September 30,		Affected Line Item in the Statements of Income
	2023	2022	
Unrealized gains (losses) on available for sale securities ⁽¹⁾			
Realized securities gains reclassified into income	\$ (4,613)	\$ 1,137	Other income - net realized gains on sales of available for sale securities
Related income tax benefit (expense)	969	(239)	Income tax expense
	<u>\$ (3,644)</u>	<u>\$ 898</u>	
Unrealized gains (losses) on cash flow hedges ⁽²⁾			
Interest rate contracts	\$ (15)	\$ (496)	Interest expense - subordinated debentures and term loans
Related income tax benefit (expense)	3	104	Income tax expense
	<u>\$ (12)</u>	<u>\$ (392)</u>	
Total reclassifications for the period, net of tax	<u>\$ (3,656)</u>	<u>\$ 506</u>	

⁽¹⁾ For additional detail related to unrealized gains (losses) on available for sale securities and related amounts reclassified from accumulated other comprehensive income see NOTE 3. INVESTMENT SECURITIES of these Notes to Consolidated Condensed Financial Statements.

⁽²⁾ For additional detail related to unrealized gains (losses) on cash flow hedges and related amounts reclassified from accumulated other comprehensive income see NOTE 7. DERIVATIVE FINANCIAL INSTRUMENTS of these Notes to Consolidated Condensed Financial Statements.

PART I. FINANCIAL INFORMATION
ITEM 1. NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(table dollar amounts in thousands, except share data)
(Unaudited)

NOTE 11

SHARE-BASED COMPENSATION

Stock options and RSAs have been issued to directors, officers and other management employees under the Corporation's 2009 Long-term Equity Incentive Plan, the 2019 Long-term Equity Incentive Plan, the Level One Bancorp, Inc. 2007 Stock Option Plan and the Equity Compensation Plan for Non-Employee Directors. The stock options, which have a ten year life, become 100 percent vested based on time ranging from one year to two years and are fully exercisable when vested. Option exercise prices equal the Corporation's common stock closing price on NASDAQ on the date of grant. The RSAs issued to employees and non-employee directors provide for the issuance of shares of the Corporation's common stock at no cost to the holder and generally vest after three years. The RSAs vest only if the employee is actively employed by the Corporation on the vesting date and, therefore, any unvested shares are forfeited. For non-employee directors, the RSAs vest only if the non-employee director remains as an active board member on the vesting date and, therefore, any unvested shares are forfeited. The RSAs for employees and non-employee directors are either immediately vested at retirement, disability or death, or, continue to vest after retirement, disability or death, depending on the plan under which the shares were granted.

The Corporation's 2019 ESPP provides eligible employees of the Corporation and its subsidiaries an opportunity to purchase shares of common stock of the Corporation through quarterly offerings financed by payroll deductions. The price of the stock to be paid by the employees shall be equal to 85 percent of the average of the closing price of the Corporation's common stock on each trading day during the offering period. However, in no event shall such purchase price be less than the lesser of an amount equal to 85 percent of the market price of the Corporation's stock on the offering date or an amount equal to 85 percent of the market value on the date of purchase. Common stock purchases are made quarterly and are paid through advance payroll deductions up to a calendar year maximum of \$25,000.

Compensation expense related to unvested share-based awards is recorded by recognizing the unamortized grant date fair value of these awards over the remaining service periods of those awards, with no change in historical reported fair values and earnings. Awards are valued at fair value in accordance with provisions of share-based compensation guidance and are recognized on a straight-line basis over the service periods of each award. To complete the exercise of vested stock options, RSA's and ESPP options, the Corporation generally issues new shares from its authorized but unissued share pool. Share-based compensation has been recognized as a component of salaries and benefits expense in the accompanying Consolidated Condensed Statements of Income.

Share-based compensation expense recognized in the Consolidated Condensed Statements of Income is based on awards ultimately expected to vest and is reduced for estimated forfeitures. Share-based compensation guidance requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods, if actual forfeitures differ from those estimates. Pre-vesting forfeitures were estimated to be approximately 0.2 percent for the nine months ended September 30, 2023, based on historical experience.

The following table summarizes the components of the Corporation's share-based compensation awards recorded as an expense and the income tax benefit of such awards.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Stock and ESPP Options				
Pre-tax compensation expense	\$ 35	\$ 15	\$ 80	\$ 64
Income tax expense (benefit)	—	—	(62)	(74)
Stock and ESPP option expense, net of income taxes	<u>\$ 35</u>	<u>\$ 15</u>	<u>\$ 18</u>	<u>\$ (10)</u>
Restricted Stock Awards				
Pre-tax compensation expense	\$ 1,325	\$ 1,171	\$ 3,712	\$ 3,366
Income tax expense (benefit)	(393)	(332)	(906)	(792)
Restricted stock awards expense, net of income taxes	<u>\$ 932</u>	<u>\$ 839</u>	<u>\$ 2,806</u>	<u>\$ 2,574</u>
Total Share-Based Compensation				
Pre-tax compensation expense	\$ 1,360	\$ 1,186	\$ 3,792	\$ 3,430
Income tax expense (benefit)	(393)	(332)	(968)	(866)
Total share-based compensation expense, net of income taxes	<u>\$ 967</u>	<u>\$ 854</u>	<u>\$ 2,824</u>	<u>\$ 2,564</u>

The grant date fair value of ESPP options was estimated to be approximately \$35,000 at the beginning of the July 1, 2023 quarterly offering period. The ESPP options vested during the three months ending September 30, 2023, leaving no unrecognized compensation expense related to unvested ESPP options at September 30, 2023.

PART I. FINANCIAL INFORMATION
ITEM 1. NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(table dollar amounts in thousands, except share data)
(Unaudited)

Stock option activity under the Corporation's stock option plans as of September 30, 2023 and changes during the nine months ended September 30, 2023, were as follows:

	Number of Shares	Weighted-Average Exercise Price	Weighted Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2023	155,100	\$ 18.89		
Exercised	(65,025)	\$ 17.07		
Outstanding September 30, 2023	90,075	\$ 20.21	2.18	\$ 685,817
Vested and Expected to Vest at September 30, 2023	90,075	\$ 20.21	2.18	\$ 685,817
Exercisable at September 30, 2023	90,075	\$ 20.21	2.18	\$ 685,817

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the Corporation's closing stock price on the last trading day of the first nine months of 2023 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their stock options on September 30, 2023. The amount of aggregate intrinsic value will change based on the fair market value of the Corporation's common stock.

The aggregate intrinsic value of stock options exercised during the nine months ended September 30, 2023 and 2022 was \$1.4 million and \$470,000, respectively. Cash receipts of stock options exercised during the same periods were \$1.1 million and \$336,000, respectively.

The following table summarizes information on unvested RSAs outstanding as of September 30, 2023:

	Number of Shares	Weighted-Average Grant Date Fair Value
Unvested RSAs at January 1, 2023	416,705	\$ 36.97
Granted	164,034	\$ 31.67
Vested	(129,092)	\$ 26.87
Forfeited	(1,700)	\$ 35.65
Unvested RSAs at September 30, 2023	449,947	\$ 37.94

As of September 30, 2023, unrecognized compensation expense related to RSAs was \$10.4 million and is expected to be recognized over a weighted-average period of 2.0 years. The Corporation did not have any unrecognized compensation expense related to stock options as of September 30, 2023.

NOTE 12

INCOME TAX

The following table summarizes the major components creating differences between income taxes at the federal statutory and the effective tax rate recorded in the consolidated statements of income for the three and nine months ended September 30, 2023 and 2022:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Reconciliation of Federal Statutory to Actual Tax Expense:				
Federal statutory income tax at 21%	\$ 13,728	\$ 15,445	\$ 44,589	\$ 36,176
Tax-exempt interest income	(4,469)	(4,974)	(13,792)	(14,371)
Share-based compensation	(108)	(79)	(172)	(146)
Tax-exempt earnings and gains on life insurance	(369)	(1,397)	(1,080)	(2,026)
Tax credits	(84)	(122)	(249)	(292)
State Income Tax	254	658	1,474	1,177
Other	53	262	251	420
Actual Tax Expense	\$ 9,005	\$ 9,793	\$ 31,021	\$ 20,938
Effective Tax Rate	13.8 %	13.3 %	14.6 %	12.2 %

PART I. FINANCIAL INFORMATION
ITEM 1. NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(table dollar amounts in thousands, except share data)
(Unaudited)

NOTE 13
NET INCOME PER COMMON SHARE

Basic net income per common share is computed by dividing net income available to common stockholders by the weighted-average common shares outstanding during the reporting period. Diluted net income per common share is computed by dividing net income available to common stockholders by the combination of the weighted-average common shares outstanding during the reporting period and all potentially dilutive common shares. Potentially dilutive common shares include stock options and RSAs issued under the Corporation's share-based compensation plans. Potentially dilutive common shares are excluded from the computation of diluted earnings per common share in the periods where the effect would be antidilutive.

The following tables reconcile basic and diluted net income per common share for the three and nine months ended September 30, 2023 and 2022.

	Three Months Ended September 30,					
	2023			2022		
	Net Income Available to Common Stockholders	Weighted-Average Common Shares	Per Share Amount	Net Income Available to Common Stockholders	Weighted-Average Common Shares	Per Share Amount
Net income available to common stockholders	\$ 55,898	59,335,877	\$ 0.95	\$ 63,283	59,096,688	\$ 1.08
Effect of potentially dilutive stock options and restricted stock awards		166,648			242,041	
Diluted net income per common share	\$ 55,898	59,502,525	\$ 0.94	\$ 63,283	59,338,729	\$ 1.08

	Nine Months Ended September 30,					
	2023			2022		
	Net Income Available to Common Stockholders	Weighted-Average Common Shares	Per Share Amount	Net Income Available to Common Stockholders	Weighted-Average Common Shares	Per Share Amount
Net income available to common stockholders	\$ 179,901	59,272,401	\$ 3.04	\$ 150,391	57,200,843	\$ 2.63
Effect of potentially dilutive stock options and restricted stock awards		192,997			266,716	
Diluted net income per common share	\$ 179,901	59,465,398	\$ 3.03	\$ 150,391	57,467,559	\$ 2.62

For the three and nine months ended September 30, 2023 and 2022, there were no stock options with an option price greater than the average market price of the common shares.

NOTE 14
GENERAL LITIGATION AND REGULATORY EXAMINATIONS

The Corporation is subject to claims and lawsuits that arise primarily in the ordinary course of business. Additionally, the Corporation is also subject to periodic examinations by various regulatory agencies. It is the general opinion of management that the disposition or ultimate resolution of any such routine litigation or regulatory examinations will not have a material adverse effect on the consolidated financial position, results of operations and cash flow of the Corporation.

PART I: FINANCIAL INFORMATION
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
FORWARD-LOOKING STATEMENTS

From time to time, we include forward-looking statements in our oral and written communication. We may include forward-looking statements in filings with the Securities and Exchange Commission, such as this Quarterly Report on Form 10-Q, in other written materials and in oral statements made by senior management to analysts, investors, representatives of the media and others. We intend these forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and we are including this statement for purposes of these safe harbor provisions. Forward-looking statements can often be identified by the use of words like "believe", "continue", "pattern", "estimate", "project", "intend", "anticipate", "expect" and similar expressions or future or conditional verbs such as "will", "would", "should", "could", "might", "can", "may", or similar expressions. These forward-looking statements include:

- statements of the Corporation's goals, intentions and expectations;
- statements regarding the Corporation's business plan and growth strategies;
- statements regarding the asset quality of the Corporation's loan and investment portfolios; and
- estimates of the Corporation's risks and future costs and benefits.

These forward-looking statements are subject to significant risks, assumptions and uncertainties, including, among other things, the following important factors which could affect the actual outcome of future events:

- fluctuations in market rates of interest and loan and deposit pricing, which could negatively affect our net interest margin, asset valuations and expense expectations;
- adverse changes in the economy, which might affect our business prospects and could cause credit-related losses and expenses;
- the impacts of epidemics, pandemics or other infectious disease outbreaks;
- the impacts related to or resulting from recent bank failures or adverse developments at other banks on general investor sentiment regarding the stability and liquidity of banks;
- adverse developments in our loan and investment portfolios;
- competitive factors in the banking industry, such as the trend towards consolidation in our market;
- changes in the banking legislation or the regulatory requirements of federal and state agencies applicable to bank holding companies and banks like our affiliate bank;
- acquisitions of other businesses by us and integration of such acquired businesses;
- changes in market, economic, operational, liquidity, credit and interest rate risks associated with our business; and
- the continued availability of earnings and excess capital sufficient for the lawful and prudent declaration and payment of cash dividends.

Because of these and other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements. In addition, our past results of operations do not necessarily indicate our anticipated future results.

BUSINESS SUMMARY

First Merchants Corporation (the "Corporation") is a financial holding company headquartered in Muncie, Indiana and was organized in September 1982. The Corporation's common stock is traded on the Nasdaq's Global Select Market System under the symbol FRME. The Corporation conducts its banking operations through First Merchants Bank (the "Bank"), a wholly-owned subsidiary that opened for business in Muncie, Indiana, in March 1893. The Bank also operates First Merchants Private Wealth Advisors (a division of First Merchants Bank). The Bank includes 118 banking locations in Indiana, Ohio, Michigan and Illinois. In addition to its branch network, the Corporation offers comprehensive electronic and mobile delivery channels to its customers. The Corporation's business activities are currently limited to one significant business segment, which is community banking.

Through the Bank, the Corporation offers a broad range of financial services, including accepting time, savings and demand deposits; making consumer, commercial, agri-business, public finance and real estate mortgage loans; providing personal and corporate trust services; offering full-service brokerage and private wealth management; and providing letters of credit, repurchase agreements and other corporate services.

PART I: FINANCIAL INFORMATION
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Generally accepted accounting principles are complex and require us to apply significant judgments to various accounting, reporting and disclosure matters. Management must use assumptions and estimates to apply those principles where actual measurement is not possible or practical. The judgments and assumptions made are based upon historical experience or other factors that management believes to be reasonable under the circumstances. Because of the nature of the judgments and assumptions, actual results could differ from estimates, which could have a material effect on our financial condition and results of operations. There have been no significant changes during the nine months ended September 30, 2023 to the items disclosed as our critical accounting policies and estimates in Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2022. For a complete discussion of our significant accounting policies, see "Notes to the Consolidated Financial Statements" in our Annual Report on Form 10-K for the year ended December 31, 2022.

HIGHLIGHTS FOR THE THIRD QUARTER OF 2023

- Net income available to common stockholders for the three months ended September 30, 2023 was \$55.9 million compared to \$63.3 million for the three months ended September 30, 2022 and \$60.4 million for the three months ended June 30, 2023.
- Earnings per fully diluted common share for the third quarter of 2023 totaled \$0.94 compared to \$1.08 in the third quarter of 2022, and \$1.02 in the second quarter of 2023.
- Earnings per fully diluted common share for the third quarter of 2023, excluding income on Paycheck Protection Program ("PPP") loans and acquisition-related costs of the Level One acquisition, totaled \$0.94 compared to \$1.12 in the third quarter of 2022 and \$1.02 in the second quarter of 2023. These adjusted earnings per share amounts are non-GAAP measures. For reconciliations of GAAP measures to the corresponding non-GAAP measures, see "NON-GAAP FINANCIAL MEASURES" within the "Results of Operations" section of this Management's Discussion and Analysis of Financial Condition and Results of Operations.
- Total loans grew \$4.9 million, or 0.2 percent annualized on a linked quarter basis, and \$406.0 million, or 4.6 percent annualized since December 31, 2022, when excluding non-relationship based commercial loan sales that occurred during the second quarter of \$116.6 million.
- Total deposits increased \$65.4 million, or 1.8 percent annualized on a linked quarter basis, and \$263.8 million, or 2.4 percent annualized since December 31, 2022.
- Strong liquidity and capital with Common Equity Tier 1 Capital Ratio of 11.26 percent.
- The efficiency ratio totaled 53.91 percent for the quarter.

RESULTS OF OPERATIONS

The Corporation reported third quarter 2023 net income available to common stockholders and diluted earnings per common share of \$55.9 million and \$0.94 per diluted share, respectively, compared to \$63.3 million and \$1.08 per diluted share, respectively, during the third quarter of 2022. Net income available to common stockholders and diluted earnings per common share for the nine months ended September 30, 2023 was \$179.9 million and \$3.03 per diluted share, respectively, compared to \$150.4 million and \$2.62 per diluted share during the nine months ended September 30, 2022.

Earnings per fully diluted common share for the third quarter of 2023, excluding income on PPP loans and Level One acquisition-related expenses (non-GAAP), totaled \$0.94, compared to \$1.02 in the second quarter of 2023 and \$1.12 in the third quarter of 2022. Earnings per fully diluted common share for the nine months ended September 30, 2023, excluding income from PPP loans and Level One acquisition-related expenses, totaled \$3.03 compared to \$3.01 for the same period in 2022. For reconciliations of GAAP earnings per share measures to the corresponding non-GAAP measures provided above, refer to the "NON-GAAP FINANCIAL MEASURES" section of this Management's Discussion and Analysis of Financial Condition and Results of Operations.

As of September 30, 2023, total assets equaled \$18.0 billion, an increase from the December 31, 2022 total of \$17.9 billion.

Cash and due from banks and interest-bearing deposits increased from December 31, 2022 by a total of \$225.2 million, as deposit growth and proceeds from investment securities principal and interest cashflows in addition to sales were held in cash for liquidity purposes. Total investment securities decreased \$550.1 million from December 31, 2022, primarily due to the sales of \$347.3 million of investment securities during the first nine months of 2023. Scheduled paydowns and maturities of investment securities of \$121.4 million and an increase of \$86.1 million in unrealized losses in the available for sale portfolio during the first nine months of 2023 contributed to the decrease since December 31, 2022. While not reflected in the balance sheet, the unrealized loss in the held to maturity portfolio also increased during the nine months ended September 30, 2023 by \$93.1 million. Currently, the Corporation is not reinvesting cashflows into the investment securities portfolio, but rather using the liquidity to fund current and future loan growth and paydown borrowings. The investment portfolio as a percentage of total assets was 20.6 percent at September 30, 2023, which is down from the peak at December 31, 2021 of 29.3 percent, and reflects progress towards a more normalized earning asset mix. Additional details of the changes in the Corporation's investment securities portfolio are discussed within NOTE 3. INVESTMENT SECURITIES of the Notes to Consolidated Condensed Financial Statements of this Quarterly Report on Form 10-Q.

PART I: FINANCIAL INFORMATION
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Corporation's total loan portfolio grew \$406.0 million, or 4.6 percent on an annualized basis, since December 31, 2022, after excluding non-relationship based commercial loan sales that occurred in the second quarter of \$116.6 million. The composition of the loan portfolio is 75.2 percent commercial oriented with the largest loan classes of commercial and industrial and commercial real estate, non-owner occupied, representing 28.4 percent and 19.2 percent of the total loan portfolio, respectively. The loan classes that experienced the largest increases from December 31, 2022 were construction real estate, residential real estate, and commercial and industrial loans. Commercial real estate, owner occupied, commercial real estate, non-owner occupied, and home equity loans were the largest loan classes that experienced a decrease from December 31, 2022. Additional details of the changes in the Corporation's loans are discussed within NOTE 4. LOANS AND ALLOWANCE of the Notes to Consolidated Condensed Financial Statements of this Quarterly Report on Form 10-Q, and the "LOAN QUALITY AND PROVISION FOR CREDIT LOSSES ON LOANS" section of this Management's Discussion and Analysis of Financial Condition and Results of Operations.

The Corporation's allowance for credit losses - loans ("ACL - loans") totaled \$205.8 million as of September 30, 2023 and equaled 1.67 percent of total loans, compared to \$223.3 million and 1.86 percent of total loans at December 31, 2022. The ACL - loans decreased \$15.4 million since June 30, 2023, primarily as a result of net charge-offs in the third quarter of 2023 of \$20.4 million, as compared to net recoveries of \$427,000 in the third quarter of 2022. Loan charge-offs, net of recoveries, for the quarter were primarily due to the charge-off of a previously reported nonaccrual loan to a syndicated specialty finance company resulting from alleged fraud that impacted our borrower's ability to repay. The effect of the third quarter charge-offs on the ACL - loans was offset by provision expense on loans of \$5.0 million in the third quarter of 2023. Reserves for unfunded commitments were reduced by \$3.0 million, resulting in a net provision expense of \$2.0 million in the third quarter of 2023, as compared to no provision expense in the same period of 2022. The ACL - loans decreased \$17.5 million since December 31, 2022, primarily as a result of net charge-offs during the nine months ended September 30, 2023 of \$22.5 million, as compared to net recoveries of \$751,000 during the same period in 2022. The Corporation recognized provision expense on loans of \$5 million, less a \$3 million reduction in the reserve for unfunded commitments, which resulted in a net provision expense of \$2.0 million during the first nine months of 2023. The Corporation recognized provision expense of \$16.8 million for the nine months ended September 30, 2022 as part of the Level One acquisition. Nonaccrual loans at September 30, 2023 were \$53.1 million and decreased \$16.1 million from June 30, 2023 primarily as a result of the nonaccrual loan that was charged off in the third quarter of 2023. Nonaccrual loans increased \$10.8 million since December 31, 2022 and resulted in a coverage ratio at September 30, 2023 of 387.5 percent. The Corporation's reserve for unfunded commitments was \$20.3 million at September 30, 2023, compared to \$23.3 million at December 31, 2022, and is recorded in Other Liabilities. Additional details of the Corporation's allowance methodology and asset quality are discussed within NOTE 4. LOANS AND ALLOWANCE of the Notes to Consolidated Condensed Financial Statements of this Quarterly Report on Form 10-Q and within the "LOAN QUALITY AND PROVISION FOR CREDIT LOSSES ON LOANS" section of this Management's Discussion and Analysis of Financial Condition and Results of Operations.

The Corporation's premises and equipment increased \$15.3 million from December 31, 2022 primarily due to the \$15.9 million purchase of an Indianapolis regional headquarters building in the third quarter of 2023.

The Corporation's net tax asset, deferred and receivable increased \$24.3 million from December 31, 2022. The primary driver was the increase in the net unrealized losses on available for sale securities noted above, which resulted in an \$18.1 million increase in the net deferred tax asset.

The Corporation's other assets increased \$37.2 million from December 31, 2022. The Corporation's derivative assets (recorded in other assets) and derivative liabilities (recorded in other liabilities) increased \$21.5 million and \$21.2 million, respectively, from December 31, 2022. The increase in valuations are due to higher notional amounts, higher target fed funds rates, heightened new debt issuances, and the resiliency of economic data, which are all contributing to higher nominal rates and increased forward rate expectations. Additionally, the Corporation's continual investment in community redevelopment funds resulted in an increase of \$10.8 million when compared to December 31, 2022.

As of September 30, 2023, total deposits equaled \$14.6 billion, an increase of \$263.8 million from December 31, 2022, or 2.4 percent on an annualized basis. Total deposits less time deposits greater than \$100,000, or core deposits, represented 90.7 percent of the deposit portfolio at September 30, 2023. Noninterest bearing deposits represents 17.4 percent of the deposit portfolio, which is a decline from the peak in the second quarter of 2022 of 23.6 percent. The decline is the result of a mix shift occurring across the industry as clients move into higher yielding deposit products. The Corporation experienced increases from December 31, 2022 in certificates and other time deposits of \$100,000 or more of \$538.1 million, other certificates and time deposits of \$292.5 million and brokered certificates of deposit of \$15.0 million. Demand and savings accounts decreased from December 31, 2022 by \$496.8 million and \$85.0 million, respectively.

The average account within the deposit portfolio totals only \$34,000. Insured deposits totaled 71.5 percent of total deposits, with the State of Indiana's Public Deposit Insurance Fund, which insures certain public deposits, providing insurance to 15.0 percent of deposits and the FDIC providing insurance to the remaining 56.5 percent. Only 28.5 percent of deposits are uninsured and our available liquidity is ample to cover those when considering both on balance sheet sources of liquidity and unused capacity from the Federal Reserve Discount Window, FHLB and unsecured borrowing sources.

Total borrowings decreased \$289.4 million as of September 30, 2023, compared to December 31, 2022. Federal funds purchased and FHLB advances decreased \$171.6 million and \$110.3 million, respectively, compared to December 31, 2022 as the Corporation utilized excess liquidity to pay down borrowings in 2023. Additionally, there was a decrease in securities sold under repurchase agreements of \$14.9 million when compared to December 31, 2022.

The Corporation continued to maintain all regulatory capital ratios in excess of the regulatory definition of "well-capitalized." Details of the Stock Repurchase Program and regulatory capital ratios are discussed within the "CAPITAL" section of this Management's Discussion and Analysis of Financial Condition and Results of Operations.

PART I: FINANCIAL INFORMATION
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

NON-GAAP FINANCIAL MEASURES

The Corporation's accounting and reporting policies conform to GAAP and general practices within the banking industry. As a supplement to GAAP, the Corporation provides non-GAAP performance measures, which management believes are useful because they assist investors in assessing the Corporation's performance. Non-GAAP financial measures have inherent limitations, are not required to be uniformly applied, and are not audited. Although these non-GAAP financial measures are frequently used by investors to evaluate a company, they have limitations as analytical tools, and should not be considered in isolation, or as a substitute for analyses of results as reported under GAAP. Where non-GAAP financial measures are used, the comparable GAAP financial measure, as well as the reconciliation to the comparable GAAP financial measure can be found in the following tables.

Adjusted earnings per share, excluding PPP loans and acquisition-related expenses, are meaningful non-GAAP financial measures for management, as they provide a meaningful foundation for period-to-period and company-to-company comparisons, which management believes will aid both investors and analysts in analyzing our financial measures and predicting future performance. These non-GAAP financial measures are also used by management to assess the performance of the Corporation's business, because management does not consider these items to be relevant to ongoing financial performance on a per share basis.

Non-GAAP financial measures such as tangible common equity to tangible assets, tangible earnings per share, return on average tangible assets and return on average tangible equity are important measures of the strength of the Corporation's capital and ability to generate earnings on tangible common equity invested by our shareholders. These non-GAAP measures provide useful supplemental information and may assist investors in analyzing the Corporation's financial position without regard to the effects of intangible assets and preferred stock, but do retain the effect of accumulated other comprehensive gains (losses) in stockholders' equity. Disclosure of these measures also allows analysts and banking regulators to assess our capital adequacy on these same bases.

ADJUSTED EPS EXCLUDING PAYCHECK PROTECTION PROGRAM ("PPP") AND ACQUISITION RELATED EXPENSES - non-GAAP

(Dollars in thousands, except per share amounts)

	Three Months Ended			Nine Months Ended	
	September 30, 2023	June 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Net Income Available to Common Stockholders - GAAP	\$ 55,898	\$ 60,393	\$ 63,283	\$ 179,901	\$ 150,391
Adjustments:					
PPP loan income	(8)	(9)	(323)	(42)	(3,098)
Acquisition-related expenses	—	—	3,417	—	16,118
Acquisition-related provision expense	—	—	—	—	16,755
Tax on adjustment	2	2	(759)	10	(7,301)
Adjusted Net Income Available to Common Stockholders - non-GAAP	<u>\$ 55,892</u>	<u>\$ 60,386</u>	<u>\$ 65,618</u>	<u>\$ 179,869</u>	<u>\$ 172,865</u>
Average Diluted Common Shares Outstanding (in thousands)	59,503	59,448	59,339	59,465	57,468
Diluted Earnings Per Common Share - GAAP	\$ 0.94	\$ 1.02	\$ 1.08	\$ 3.03	\$ 2.62
Adjustments:					
PPP loan income	—	—	—	—	(0.05)
Acquisition-related expenses	—	—	0.05	—	0.27
Acquisition-related provision expense	—	—	—	—	0.30
Tax on adjustment	—	—	(0.01)	—	(0.13)
Adjusted Diluted Earnings Per Common Share - non-GAAP	<u>\$ 0.94</u>	<u>\$ 1.02</u>	<u>\$ 1.12</u>	<u>\$ 3.03</u>	<u>\$ 3.01</u>

TANGIBLE COMMON EQUITY TO TANGIBLE ASSETS - non-GAAP

(Dollars in thousands, except per share amounts)

	September 30, 2023	December 31, 2022
Total Stockholders' Equity (GAAP)	\$ 2,092,644	\$ 2,034,770
Less: Preferred stock (GAAP)	(25,125)	(25,125)
Less: Intangible assets (GAAP)	(741,283)	(747,844)
Tangible common equity (non-GAAP)	<u>\$ 1,326,236</u>	<u>\$ 1,261,801</u>
Total assets (GAAP)	\$ 17,996,648	\$ 17,938,306
Less: Intangible assets (GAAP)	(741,283)	(747,844)
Tangible assets (non-GAAP)	<u>\$ 17,255,365</u>	<u>\$ 17,190,462</u>
Stockholders' Equity to Assets (GAAP)	11.63 %	11.34 %
Tangible common equity to tangible assets (non-GAAP)	7.69 %	7.34 %
Tangible common equity (non-GAAP)	\$ 1,326,236	\$ 1,261,801
Plus: Tax benefit of intangibles (non-GAAP)	6,290	7,702
Tangible common equity, net of tax (non-GAAP)	<u>\$ 1,332,526</u>	<u>\$ 1,269,503</u>
Common Stock outstanding	59,398	59,171
Book Value (GAAP)	\$ 34.81	\$ 33.96
Tangible book value - common (non-GAAP)	<u>\$ 22.43</u>	<u>\$ 21.45</u>

PART I: FINANCIAL INFORMATION
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

TANGIBLE EARNINGS PER SHARE, RETURN ON TANGIBLE ASSETS AND RETURN ON TANGIBLE EQUITY - non-GAAP
(Dollars in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Average goodwill (GAAP)	\$ 712,002	\$ 712,995	\$ 712,002	\$ 657,643
Average other intangibles (GAAP)	30,293	39,580	32,446	35,500
Average deferred tax on other intangibles (GAAP)	(6,508)	(8,505)	(6,972)	(7,436)
Intangible adjustment (non-GAAP)	\$ 735,787	\$ 744,070	\$ 737,476	\$ 685,707
Average stockholders' equity (GAAP)	\$ 2,154,232	\$ 2,018,156	\$ 2,126,005	\$ 1,977,299
Average preferred stock (GAAP)	(25,125)	(25,125)	(25,125)	(16,792)
Intangible adjustment (non-GAAP)	(735,787)	(744,070)	(737,476)	(685,707)
Average tangible capital (non-GAAP)	\$ 1,393,320	\$ 1,248,961	\$ 1,363,404	\$ 1,274,800
Average assets (GAAP)	\$ 18,152,239	\$ 17,770,623	\$ 18,115,504	\$ 17,012,930
Intangible adjustment (non-GAAP)	(735,787)	(744,070)	(737,476)	(685,707)
Average tangible assets (non-GAAP)	\$ 17,416,452	\$ 17,026,553	\$ 17,378,028	\$ 16,327,223
Net income available to common stockholders (GAAP)	\$ 55,898	\$ 63,283	\$ 179,901	\$ 150,391
Other intangible amortization, net of tax (GAAP)	1,724	1,819	5,183	4,718
Preferred stock dividend	468	469	1,406	938
Tangible net income available to common stockholders (non-GAAP)	\$ 58,090	\$ 65,571	\$ 186,490	\$ 156,047
Per Share Data:				
Diluted net income available to common stockholders (GAAP)	\$ 0.94	\$ 1.08	\$ 3.03	\$ 2.62
Diluted tangible net income available to common stockholders (non-GAAP)	\$ 0.97	\$ 1.11	\$ 3.11	\$ 2.72
Ratios:				
Return on average GAAP capital (ROE)	10.38 %	12.54 %	11.28 %	10.14 %
Return on average tangible capital	16.54 %	20.85 %	18.10 %	16.22 %
Return on average assets (ROA)	1.24 %	1.43 %	1.33 %	1.19 %
Return on average tangible assets	1.33 %	1.54 %	1.43 %	1.27 %

Return on average tangible capital is tangible net income available to common stockholders (annualized) expressed as a percentage of average tangible capital. Return on average tangible assets is tangible net income available to common stockholders (annualized) expressed as a percentage of average tangible assets.

NET INTEREST INCOME

Net interest income is the most significant component of our earnings, comprising 84.0 percent of revenues for the nine months ended September 30, 2023. Net interest income and margin are influenced by many factors, primarily the volume and mix of earning assets, funding sources, and interest rate fluctuations. Other factors include the level of accretion income on purchased loans, prepayment risk on loan and investment-related assets, and the composition and maturity of earning assets and interest-bearing liabilities. Loans typically generate more interest income than investment securities with similar maturities. Funding from customer deposits generally costs less than wholesale funding sources. Factors such as general economic activity, Federal Reserve Board monetary policy, and price volatility of competing alternative investments, can also exert significant influence on our ability to optimize the mix of assets and funding and the net interest income and margin.

Net interest income is the excess of interest received from earning assets over interest paid on interest-bearing liabilities. For analytical purposes, net interest income is also presented on an FTE basis in the tables that follow to reflect what our tax-exempt assets would need to yield in order to achieve the same after-tax yield as a taxable asset. The federal statutory rate of 21 percent was used for 2023 and 2022. The FTE analysis portrays the income tax benefits associated with tax-exempt assets and helps to facilitate a comparison between taxable and tax-exempt assets. Management believes that it is a standard practice in the banking industry to present net interest margin and net interest income on a fully taxable equivalent basis. Therefore, management believes these measures provide useful information for both management and investors by allowing them to make peer comparisons.

Net interest margin, on an FTE basis, decreased 26 basis points to 3.29 percent for the three months ended September, 30 2023 compared to 3.55 percent for the same period in 2022.

Net interest margin, on an FTE basis, increased 12 basis points to 3.42 percent for the nine months ended September, 30 2023 compared to 3.30 percent for the same period in 2022.

Average Balance Sheet

Average earning assets for the three months and nine months ended September 30, 2023 increased \$438.8 million and \$1.2 billion, respectively, compared to the same periods in 2022. The increase for the three months ended September 30, 2023 was primarily driven by organic loan growth within the commercial real estate and residential real estate portfolios. The increase for the nine months ended September 30, 2023 was driven by a \$1.6 billion increase in loans when compared to the same period in 2022 which was primarily due to the acquisition of Level One on April 1, 2022, coupled with organic loan growth within the commercial real estate and residential real estate portfolios. PPP loans averaged approximately \$3.2 million and \$3.6 million for the three and nine months ended September 30, 2023, respectively, compared to an average of approximately \$19.2 million and \$53.1 million for the same periods of 2022.

PART I: FINANCIAL INFORMATION
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The average interest-bearing deposits due from other banks in the three and nine months ended September 30, 2023 increased \$313.5 million and \$7.1 million, respectively, as deposit growth and proceeds from investment securities principal and interest cashflows in addition to sales were held in cash for liquidity purposes.

The decline in the average investment securities portfolio in the three and nine months ended September 30, 2023 of \$676.9 million and \$460.4 million, respectively, when compared to the same periods in 2022 was due to the Corporation not reinvesting cashflows into the investment securities portfolio, but rather using the liquidity to fund current and future loan growth. The investment portfolio as a percentage of total assets was 20.6 percent at September 30, 2023, which is down from the peak at December 31, 2021 of 29.3 percent, and reflects progress towards a more normalized earning asset mix.

Average interest-bearing deposits for the three and nine months ended September 30, 2023 increased \$981.7 million and \$935.1 million, respectively, compared to the same periods in 2022, with the largest increases in both periods in the certificates and other time deposit portfolio. Additionally, for the nine months ended September 30, 2023, the increase in average interest-bearing deposits was primarily due to the acquisition of Level One on April 1, 2022. Noninterest bearing deposits represents 17.4 percent of the deposit portfolio, which is a decline from the peak in the second quarter of 2022 of 23.6 percent. The decline is the result of a mix shift occurring across the industry as clients move into higher yielding deposit products. Noninterest bearing deposits act to mitigate deposit yield increases as interest rates rise.

Average borrowings increased \$18.3 million and \$326.5 million for the three and nine months ended September 30, 2023, respectively, compared to the same periods of 2022 as the average balance of FHLB advances increased \$123.7 million due to the acquisition of Level One on April 1, 2022, which resulted in an additional \$160.0 million of FHLB advances.

Interest Income/Expense and Average Yields

In the third quarter of 2023, FTE asset yields increased 144 basis points compared to the same period in 2022. The increase in interest income, on an FTE basis, of \$65.4 million during the three months ended September 30, 2023 compared to the same period in 2022 was primarily due to an increase in average earning assets, coupled with the FOMC's interest rate increases of 525 basis points since March of 2022. The Corporation's loan portfolio is 65.6 percent variable with 37.1 percent of the portfolio repricing within one month and 51.4 percent repricing within three months. Additionally, due to the FOMC interest rate increases in 2023 and 2022, the yields on new and renewed loans increased for the three months ended September 30, 2023 compared to the same period in 2022. The PPP loans originated in 2021 and 2020 were recorded at an interest rate of only 1 percent. The Corporation recognized fee and interest income of \$8,000 on PPP loans for the three months ended September 30, 2023, compared to \$323,000 in the same period of 2022, which is included in interest income. The Corporation also recognized fair value accretion income on purchased loans, which is included in interest income, of \$2.0 million, which accounted for 5 basis points of net interest margin in the three months ended September 30, 2023. Comparatively, the Corporation recognized \$3.2 million of accretion income for the three months ended September 30, 2022, or 8 basis points of net interest margin.

Interest costs increased 216 basis points, which mitigated the 144 basis point increase in asset yields and resulted in a 72 basis point FTE decrease in net interest spread when compared to the same period in 2022. Interest costs have increased during the quarter and year due to deposit pricing pressure and deposit portfolio mix changes as a result of customers migrating out of noninterest-bearing deposit products into interest-bearing deposit products.

Interest-bearing deposits and borrowing costs for the three months ended September 30, 2023 were 2.83 percent and 3.95 percent, respectively, compared to 0.60 percent and 2.52 percent, respectively, during the same period in 2022. Total cost of funds was 292 basis points for the three months ended September 30, 2023 compared to 76 basis points during the same period in 2022.

In the the nine months ended September, 30 2023, FTE asset yields increased 166 basis points compared to the same period in 2022. The increase in interest income, on an FTE basis, of \$242.7 million during the nine months ended September 30, 2023 compared to the same period in 2022 was primarily due to an increase in average earning assets, coupled with the FOMC's interest rate increases of 525 basis points since March of 2022. The PPP loans originated in 2021 and 2020 were recorded at an interest rate of only 1 percent. The Corporation recognized fee and interest income of \$41,000 on PPP loans for the nine months ended September 30, 2023, compared to \$3.1 million in the same period of 2022, which is included in interest income. The Corporation also recognized fair value accretion income on purchased loans, which is included in interest income, of \$6.4 million, which accounted for 5 basis points of net interest margin in the nine months ended September 30, 2023. Comparatively, the Corporation recognized \$7.4 million of accretion income for the nine months ended September 30, 2022, or 6 basis points of net interest margin.

Interest costs increased 200 basis points, which mitigated the 166 basis point increase in asset yields and resulted in a 34 basis point FTE decrease in net interest spread when compared to the same period in 2022.

Interest-bearing deposits and borrowing costs for the nine months ended September 30, 2023 were 2.37 percent and 3.74 percent, respectively, compared to 0.36 percent and 2.18 percent, respectively, during the same period in 2022. Total cost of funds was 249 basis points for the nine months ended September 30, 2023 compared to 49 basis points during the same period in 2022.

Details regarding the Corporation's acquisition of Level One can be found in NOTE 2. ACQUISITIONS of the Notes to Consolidated Condensed Financial Statements of this Quarterly Report on Form 10-Q.

PART I: FINANCIAL INFORMATION
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following tables present the Corporation's average balance sheet, interest income/interest expense, and the average rate as a percent of average earning assets/liabilities for the three and nine months ended September 30, 2023 and 2022.

(Dollars in Thousands)

	September 30, 2023			Three Months Ended			September 30, 2022		
	Average Balance	Interest Income / Expense	Average Rate	Average Balance	Interest Income / Expense	Average Rate	Average Balance	Interest Income / Expense	Average Rate
Assets:									
Interest-bearing deposits	\$ 502,967	\$ 5,884	4.68 %	\$ 190,434	\$ 704	1.48 %			
Federal Home Loan Bank stock	41,826	719	6.88	38,089	314	3.30			
Investment Securities: ⁽¹⁾									
Taxable	1,817,219	8,590	1.89	2,091,608	10,055	1.92			
Tax-Exempt ⁽²⁾	2,298,025	17,655	3.07	2,700,580	21,849	3.24			
Total Investment Securities	4,115,244	26,245	2.55	4,792,188	31,904	2.66			
Loans held for sale	24,227	386	6.37	20,039	266	5.74			
Loans: ⁽³⁾									
Commercial	8,456,527	153,993	7.28	8,177,895	103,227	5.05			
Real estate mortgage	2,079,067	21,618	4.16	1,666,173	14,701	3.53			
Installment	827,318	15,708	7.59	813,112	10,310	5.07			
Tax-Exempt ⁽²⁾	900,493	10,491	4.66	810,984	8,228	4.06			
Total Loans	12,287,632	202,196	6.58	11,488,203	136,732	4.76			
Total Earning Assets	16,947,669	235,044	5.55 %	16,508,914	169,654	4.11 %			
Total Non-Earning Assets	1,204,570			1,261,709					
Total Assets	\$ 18,152,239			\$ 17,770,623					
Liabilities:									
Interest-Bearing Deposits:									
Interest-bearing deposits	\$ 5,425,829	\$ 37,780	2.79 %	\$ 5,184,087	\$ 8,723	0.67 %			
Money market deposits	2,923,798	23,607	3.23	3,096,423	5,390	0.70			
Savings deposits	1,641,338	3,844	0.94	1,978,596	1,538	0.31			
Certificates and other time deposits	2,106,910	20,320	3.86	857,033	993	0.46			
Total Interest-Bearing Deposits	12,097,875	85,551	2.83	11,116,139	16,644	0.60			
Borrowings	1,032,180	10,199	3.95	1,013,893	6,388	2.52			
Total Interest-Bearing Liabilities	13,130,055	95,750	2.92	12,130,032	23,032	0.76			
Noninterest-bearing deposits	2,637,717			3,461,393					
Other liabilities	230,235			161,042					
Total Liabilities	15,998,007			15,752,467					
Stockholders' Equity	2,154,232			2,018,156					
Total Liabilities and Stockholders' Equity	\$ 18,152,239	95,750		\$ 17,770,623	23,032				
Net Interest Income (FTE)		\$ 139,294			\$ 146,622				
Net Interest Spread (FTE) ⁽⁴⁾			2.63 %			3.35 %			
Net Interest Margin (FTE):									
Interest Income (FTE) / Average Earning Assets			5.55 %			4.11 %			
Interest Expense / Average Earning Assets			2.26 %			0.56 %			
Net Interest Margin (FTE) ⁽⁵⁾			3.29 %			3.55 %			

⁽¹⁾ Average balance of securities is computed based on the average of the historical amortized cost balances without the effects of the fair value adjustments. Annualized amounts are computed utilizing a 30/360 day basis.

⁽²⁾ Tax-exempt securities and loans are presented on a fully taxable equivalent basis, using a marginal tax rate of 21 percent for 2023 and 2022. These totals equal \$5,911 and \$6,316 for the three months ended September 30, 2023 and 2022, respectively.

⁽³⁾ Nonaccruing loans have been included in the average balances.

⁽⁴⁾ Net Interest Spread (FTE) is interest income expressed as a percentage of average earning assets minus interest expense expressed as a percentage of average interest-bearing liabilities.

⁽⁵⁾ Net Interest Margin (FTE) is interest income expressed as a percentage of average earning assets minus interest expense expressed as a percentage of average earning assets.

PART I: FINANCIAL INFORMATION
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Dollars in Thousands)

	September 30, 2023			September 30, 2022		
	Average Balance	Interest Income / Expense	Average Rate	Average Balance	Interest Income / Expense	Average Rate
Assets:						
Interest-bearing deposits	\$ 340,887	\$ 9,685	3.79 %	\$ 333,818	\$ 1,544	0.62 %
Federal Home Loan Bank stock	41,160	2,281	7.39	34,742	635	2.44
Investment Securities: ⁽¹⁾						
Taxable	1,872,267	26,563	1.89	2,079,983	28,937	1.85
Tax-Exempt ⁽²⁾	2,394,864	56,071	3.12	2,647,547	63,732	3.21
Total Investment Securities	4,267,131	82,634	2.58	4,727,530	92,669	2.61
Loans held for sale	22,398	1,046	6.23	19,020	622	4.36
Loans: ⁽³⁾						
Commercial	8,515,148	444,422	6.96	7,731,591	253,770	4.38
Real estate mortgage	2,008,852	60,354	4.01	1,350,969	35,199	3.47
Installment	833,133	44,492	7.12	765,960	24,775	4.31
Tax-Exempt ⁽²⁾	885,256	30,072	4.53	780,410	23,030	3.93
Total Loans	12,264,787	580,386	6.31	10,647,950	337,396	4.22
Total Earning Assets	16,913,965	674,986	5.32 %	15,744,040	432,244	3.66 %
Total Non-Earning Assets	1,201,539			1,268,890		
Total Assets	\$ 18,115,504			\$ 17,012,930		
Liabilities:						
Interest-Bearing Deposits:						
Interest-bearing deposits	\$ 5,412,482	\$ 97,016	2.39 %	\$ 5,195,249	\$ 15,699	0.40 %
Money market deposits	2,812,891	55,868	2.65	2,880,603	8,392	0.39
Savings deposits	1,730,110	10,693	0.82	1,937,761	2,895	0.20
Certificates and other time deposits	1,821,408	45,860	3.36	828,158	2,437	0.39
Total Interest-Bearing Deposits	11,776,891	209,437	2.37	10,841,771	29,423	0.36
Borrowings	1,144,368	32,122	3.74	817,894	13,354	2.18
Total Interest-Bearing Liabilities	12,921,259	241,559	2.49	11,659,665	42,777	0.49
Noninterest-bearing deposits	2,850,557			3,232,925		
Other liabilities	217,683			143,041		
Total Liabilities	15,989,499			15,035,631		
Stockholders' Equity	2,126,005			1,977,299		
Total Liabilities and Stockholders' Equity	\$ 18,115,504	241,559		\$ 17,012,930	42,777	
Net Interest Income (FTE)		\$ 433,427			\$ 389,467	
Net Interest Spread (FTE) ⁽⁴⁾			2.83 %			3.17 %
Net Interest Margin (FTE):						
Interest Income (FTE) / Average Earning Assets			5.32 %			3.66 %
Interest Expense / Average Earning Assets			1.90 %			0.36 %
Net Interest Margin (FTE) ⁽⁵⁾			3.42 %			3.30 %

⁽¹⁾ Average balance of securities is computed based on the average of the historical amortized cost balances without the effects of the fair value adjustments. Annualized amounts are computed utilizing a 30/360 day basis.

⁽²⁾ Tax-exempt securities and loans are presented on a fully taxable equivalent basis, using a marginal tax rate of 21 percent for 2023 and 2022. These totals equal \$18,090 and \$18,220 for the nine months ended September 30, 2023 and 2022, respectively.

⁽³⁾ Nonaccruing loans have been included in the average balances.

⁽⁴⁾ Net Interest Spread (FTE) is interest income expressed as a percentage of average earning assets minus interest expense expressed as a percentage of average interest-bearing liabilities.

⁽⁵⁾ Net Interest Margin (FTE) is interest income expressed as a percentage of average earning assets minus interest expense expressed as a percentage of average earning assets.

PART I: FINANCIAL INFORMATION
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

NONINTEREST INCOME

Noninterest income totaled \$27.8 million for the third quarter of 2023, a \$1.8 million, or 6.0 percent, decrease from the third quarter of 2022. The third quarter of 2023 included \$551,000 of gains on life insurance benefits, compared to \$5.3 million in the same period of 2022. Additionally, \$1.7 million in net losses were realized on the sale of \$33.2 million of available for sale securities during the current quarter, compared to \$481,000 of net realized gains in the third quarter of 2022.

Offsetting these declines in the three months ended September 30, 2023 was an increase of \$3.0 million in net gains and fees on sales of loans and a \$1.7 million increase in other income, primarily due to a \$1.9 million write-down of an equity investment, when compared to the third quarter of 2022.

During the first nine months of 2023, noninterest income totaled \$79.2 million, a \$4.6 million, or 5.5 percent, decrease when compared to the same period in 2022. The largest decrease was \$4.6 million in net losses realized on the sale of \$347.3 million of available for sale securities during the first nine months of 2023, compared to \$1.1 million in net realized gains in the first nine months of 2022. Additionally, gains on life insurance benefits decreased \$4.5 million in the nine months ended September 30, 2023 compared to the same period in 2022.

Offsetting the declines in the first nine months of 2023 was an increase of \$3.6 million in net gains and fees on sales of loans and a \$1.6 million increase in other income, primarily due to a \$1.9 million write-down of an equity investment, when compared to the same period in 2022. Additionally, service charges were \$1.9 million higher in the first nine months of 2023 compared to the first nine months of 2022 primarily due to the Level One acquisition in the second quarter of 2022.

NONINTEREST EXPENSE

Noninterest expense totaled \$93.9 million for the third quarter of 2023, a \$2.5 million, or 2.6 percent, decrease from the third quarter of 2022. The decrease was primarily due to one-time Level One acquisition related charges of \$3.4 million recorded in the third quarter of 2022, for core system processing and conversion expenses of \$1.5 million recorded in outside data processing fees and professional and other outside services, \$1.2 million recorded in salaries and employee benefits and \$368,000 of marketing expenses. In addition, other expenses were \$1.2 million less in the third quarter of 2023 than in the same period of 2022, primarily due to higher losses on the sales of former banking center facilities in the third quarter of 2022 and lower customer-related contingent losses and mortgage servicing rights.

Partially offsetting the declines was an increase in other real estate and foreclosure expenses as a result of less credit-related expense recoveries and higher forced-placed insurance expenses.

During the first nine months of 2023, noninterest expense totaled \$280.2 million, a \$14.2 million, or 5.3 percent, increase when compared to the same period in 2022. The largest increase of \$13.2 million was in salaries and employee benefits and resulted from the addition of Level One staff for the entire nine months ended September 30, 2023 as compared to only six months of 2022. In addition, occupancy and equipment expenses from the larger franchise footprint resulted in an increase in expenses in 2023 as compared to the same period in 2022. The Corporation continues to invest in customer-facing digital solutions that contributed to increases in outside data processing expenses of \$3.2 million. The increase in other real estate and foreclosure expenses of \$949,000, when compared to the first nine months of 2022, was the result of less credit-related expense recoveries and higher forced-placed insurance expenses. The increase in other expenses is primarily due to higher customer-related contingent losses during the first nine months of 2023 as compared to the same period in 2022.

As part of the Level One acquisition, the Corporation recorded acquisition-related costs in the first nine months of 2022, which totaled \$16.1 million, of which \$7.5 million was in professional and other outside services, \$5.7 million was reflected in salaries and employee benefits, and \$2.0 million in equipment and outside data processing expenses. The acquisition-related expenses were primarily contract termination charges, core system conversion expenses, transaction advisory services and employee retention bonuses and severance. Additionally, the FDIC assessment decline in 2023 compared to 2022 was primarily due to a one-time FDIC credit of \$2.0 million recorded in the first quarter of 2023, offset by increases from growth in the balance sheet and the FDIC rate increase of 2 basis points, which was effective at the beginning of 2023.

Details regarding the Corporation's acquisition of Level One can be found in NOTE 2. ACQUISITIONS of the Notes to Consolidated Condensed Financial Statements of this Quarterly Report on Form 10-Q.

INCOME TAXES

Income tax expense for the third quarter of 2023 was \$9.0 million on pre-tax net income of \$65.4 million. For the same period in 2022, income tax expense was \$9.8 million on pre-tax income of \$73.5 million. The effective income tax rates for the third quarter of 2023 and 2022 were 13.8 percent and 13.3 percent, respectively.

Income tax expense for the nine months ended September 30, 2023 was \$31.0 million on pre-tax net income of \$212.3 million. For the same period in 2022, income tax expense was \$20.9 million on pre-tax net income of \$172.3 million. The effective income tax rates for the nine months ended September 30, 2023 and 2022 were 14.6 percent and 12.2 percent, respectively.

PART I: FINANCIAL INFORMATION

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The higher effective income tax rate for the three and nine months ended September 30, 2023 when compared to the same periods in 2022 was primarily a result of tax-exempt interest income being a smaller portion of pre-tax income in 2023 coupled with 2022 containing higher levels of tax-exempt earnings and gains on life insurance, which are also non-taxable.

The detailed reconciliation of federal statutory to actual tax expense is shown in NOTE 12. INCOME TAX of the Notes to Consolidated Condensed Financial Statements of this Quarterly Report on Form 10-Q.

CAPITAL

Preferred Stock

As part of the Level One acquisition, the Corporation issued 10,000 shares of newly created 7.5 percent non-cumulative perpetual preferred stock, with a liquidation preference of \$2,500 per share, in exchange for the outstanding Level One Series B preferred stock. Likewise, each outstanding Level One depository share representing a 1/100th interest in a share of the Level One Series B preferred stock was converted into a depository share of the Corporation representing a 1/100th interest in a share of its newly issued preferred stock. The Corporation had \$25.0 million of outstanding preferred stock at September 30, 2023 and December 31, 2022. During the three and nine months ended September 30, 2023, the Corporation declared and paid dividends of \$46.88 per share (equivalent to \$0.4688 per depository share) and \$140.64 per share, respectively, equal to \$468,000 and \$1,406,000, respectively. During the three and nine months ended September 30, 2022, the Corporation declared and paid dividends of \$46.88 per share and \$93.76 per share, respectively, equal to \$469,000 and \$938,000, respectively. The Series A preferred stock qualifies as Tier 1 capital for purposes of the regulatory capital calculations.

Stock Repurchase Program

On January 27, 2021, the Board of Directors of the Corporation approved a stock repurchase program of up to 3,333,000 shares of the Corporation's outstanding common stock; provided, however, that the total aggregate investment in shares repurchased under the program may not exceed \$100,000,000. On a share basis, the amount of common stock subject to the repurchase program represented approximately 6 percent of the Corporation's outstanding shares at the time the program became effective. The Corporation did not repurchase any shares of its common stock pursuant to the repurchase program during 2022 or the nine months ended September 30, 2023. As of September 30, 2023, the Corporation had approximately 2.7 million shares at an aggregate value of \$74.5 million available to repurchase under the program.

In August 2022, the Inflation Reduction Act of 2022 (the "IRA") was enacted. Among other things, the IRA imposes a new 1 percent excise tax on the fair market value of stock repurchased after December 31, 2022 by publicly traded U.S. corporations (like the Corporation). With certain exceptions, the value of stock repurchased is determined net of stock issued in the year, including shares issued pursuant to compensatory arrangements.

Regulatory Capital

Capital adequacy is an important indicator of financial stability and performance. The Corporation and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies and are assigned to a capital category. The assigned capital category is largely determined by four ratios that are calculated according to the regulations: total risk-based capital, tier 1 risk-based capital, CET1, and tier 1 leverage ratios. The ratios are intended to measure capital relative to assets and credit risk associated with those assets and off-balance sheet exposures of the entity. The capital category assigned to an entity can also be affected by qualitative judgments made by regulatory agencies about the risk inherent in the entity's activities that are not part of the calculated ratios.

There are five capital categories defined in the regulations, ranging from well capitalized to critically undercapitalized. Classification of a bank in any of the undercapitalized categories can result in actions by regulators that could have a material effect on a bank's operations. Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total risk-based capital, tier 1 capital, and common equity tier 1 capital, in each case, to risk-weighted assets, and of tier 1 capital to average assets, or leverage ratio, all of which are calculated as defined in the regulations. Banks with lower capital levels are deemed to be undercapitalized, significantly undercapitalized or critically undercapitalized, depending on their actual levels. The appropriate federal regulatory agency may also downgrade a bank to the next lower capital category upon a determination that the bank is in an unsafe or unsound practice. Banks are required to monitor closely their capital levels and to notify their appropriate regulatory agency of any basis for a change in capital category.

Basel III requires the Corporation and the Bank to maintain the minimum capital and leverage ratios as defined in the regulation and as illustrated in the table below, which capital to risk-weighted asset ratios include a 2.5 percent capital conservation buffer. Under Basel III, in order to avoid limitations on capital distributions, including dividends, the Corporation must hold a 2.5 percent capital conservation buffer above the adequately capitalized CET1 to risk-weighted assets ratio (which buffer is reflected in the required ratios below). Under Basel III, the Corporation and Bank elected to opt-out of including accumulated other comprehensive income in regulatory capital. As of September 30, 2023, the Bank met all capital adequacy requirements to be considered well capitalized under the fully phased-in Basel III capital rules. There is no threshold for well capitalized status for bank holding companies.

As part of a March 27, 2020 joint statement of federal banking regulators, an interim final rule that allowed banking organizations to mitigate the effects of the CECL accounting standard on their regulatory capital was announced. Banking organizations could elect to mitigate the estimated cumulative regulatory capital effects of CECL for up to two years. This two-year delay was to be in addition to the three-year transition period that federal banking regulators had already made available. While the Consolidated Appropriations Act of 2021 provided for a further extension of the mandatory adoption of CECL until January 1, 2022, the federal banking regulators elected to not provide a similar extension to the two year mitigation period applicable to regulatory capital effects. Instead, the federal banking regulators require that, in order to utilize the additional two-year delay, banking organizations must have adopted the CECL standard no later than December 31, 2020, as required by the CARES Act. As a result, because implementation of the CECL standard was delayed by the Corporation until January 1, 2021, it began phasing in the cumulative effect of the adoption on its regulatory capital, at a rate of 25 percent per year, over a three-year transition period that began on January 1, 2021. Under that phase-in schedule, the cumulative effect of the adoption will be fully reflected in regulatory capital on January 1, 2024.

PART I: FINANCIAL INFORMATION
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Corporation's and Bank's actual and required capital ratios as of September 30, 2023 and December 31, 2022 were as follows:

September 30, 2023	Actual		Prompt Corrective Action Thresholds			
	Amount	Ratio	Basel III Minimum Capital Required		Well Capitalized	
			Amount	Ratio	Amount	Ratio
Total risk-based capital to risk-weighted assets						
First Merchants Corporation	\$ 2,005,401	13.66 %	\$ 1,541,750	10.50 %	N/A	N/A
First Merchants Bank	1,911,504	13.01	1,542,558	10.50	\$ 1,469,103	10.00 %
Tier 1 capital to risk-weighted assets						
First Merchants Corporation	\$ 1,678,208	11.43 %	\$ 1,248,083	8.50 %	N/A	N/A
First Merchants Bank	1,727,271	11.76	1,248,738	8.50	\$ 1,175,282	8.00 %
CET1 capital to risk-weighted assets						
First Merchants Corporation	\$ 1,653,208	11.26 %	\$ 1,027,833	7.00 %	N/A	N/A
First Merchants Bank	1,727,271	11.76	1,028,372	7.00	\$ 954,917	6.50 %
Tier 1 capital to average assets						
First Merchants Corporation	\$ 1,678,208	9.63 %	\$ 697,226	4.00 %	N/A	N/A
First Merchants Bank	1,727,271	9.92	696,705	4.00	\$ 870,881	5.00 %

December 31, 2022	Actual		Prompt Corrective Action Thresholds			
	Amount	Ratio	Basel III Minimum Capital Required		Well Capitalized	
			Amount	Ratio	Amount	Ratio
Total risk-based capital to risk-weighted assets						
First Merchants Corporation	\$ 1,882,254	13.08 %	\$ 1,511,230	10.50 %	N/A	N/A
First Merchants Bank	1,822,296	12.65	1,513,064	10.50	\$ 1,441,014	10.00 %
Tier 1 capital to risk-weighted assets						
First Merchants Corporation	\$ 1,558,281	10.83 %	\$ 1,223,377	8.50 %	N/A	N/A
First Merchants Bank	1,641,210	11.39	1,224,862	8.50	\$ 1,152,811	8.00 %
Common equity tier 1 capital to risk-weighted assets						
First Merchants Corporation	\$ 1,533,281	10.65 %	\$ 1,007,487	7.00 %	N/A	N/A
First Merchants Bank	1,641,210	11.39	1,008,710	7.00	\$ 936,659	6.50 %
Tier 1 capital to average assets						
First Merchants Corporation	\$ 1,558,281	9.10 %	\$ 684,758	4.00 %	N/A	N/A
First Merchants Bank	1,641,210	9.60	683,680	4.00	\$ 854,600	5.00 %

On April 9, 2020, federal banking regulators issued an interim final rule to modify the Basel III regulatory capital rules applicable to banking organizations to allow those organizations participating in the PPP to neutralize the regulatory capital effects of participating in the program. The interim final rule, which became effective April 13, 2020, clarified that PPP loans receive a zero percent risk-weight for purposes of determining risk-weighted assets and the CET1, tier 1 and total risk-based capital ratios. At September 30, 2023 and December 31, 2022, risk-weighted assets included \$3.0 million and \$4.7 million, respectively, of PPP loans at a zero risk weight.

Basel III permits banks with less than \$15 billion in assets to continue to treat trust preferred securities as tier 1 capital. This treatment is permanently grandfathered as tier 1 capital even if the Corporation should ever exceed \$15 billion in assets due to organic growth but not following certain mergers or acquisitions. As a result, while the Corporation's total assets exceeded \$15 billion as of December 31, 2021, the Corporation has continued to treat its trust preferred securities as tier 1 capital as of such date. However, under certain amendments to the "transition rules" of Basel III, if a bank holding company that held less than \$15 billion of assets as of December 31, 2009 (which would include the Corporation) acquires a bank holding company with under \$15 billion in assets at the time of acquisition (which would include Level One), and the resulting organization has total consolidated assets of \$15 billion or more as reported on the resulting organization's call report for the period in which the transaction occurred, the resulting organization must begin reflecting its trust preferred securities as tier 2 capital at such time. As a result, effective with the April 1, 2022 consummation of the Level One merger, the Corporation began reflecting all of its trust preferred securities as tier 2 capital.

Management believes the disclosed capital ratios are meaningful measurements for evaluating the safety and soundness of the Corporation. Traditionally, the banking regulators have assessed bank and bank holding company capital adequacy based on both the amount and the composition of capital, the calculation of which is prescribed in federal banking regulations. The Federal Reserve focuses its assessment of capital adequacy on a component of tier 1 capital known as CET1. Because the Federal Reserve has long indicated that voting common shareholders' equity (essentially tier 1 risk-based capital less preferred stock and non-controlling interest in subsidiaries) generally should be the dominant element in tier 1 risk-based capital, this focus on CET1 is consistent with existing capital adequacy categories. Tier I regulatory capital consists primarily of total common stockholders' equity and subordinated debentures issued to business trusts categorized as qualifying borrowings, less non-qualifying intangible assets and unrealized net securities gains or losses.

PART I: FINANCIAL INFORMATION
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

A reconciliation of regulatory measures are detailed in the following table as of the dates indicated.

(Dollars in thousands)	September 30, 2023		December 31, 2022	
	First Merchants Corporation	First Merchants Bank	First Merchants Corporation	First Merchants Bank
Total Risk-Based Capital				
Total Stockholders' Equity (GAAP)	\$ 2,092,644	\$ 2,143,339	\$ 2,034,770	\$ 2,119,316
Adjust for Accumulated Other Comprehensive (Income) Loss ⁽¹⁾	307,270	305,191	239,151	237,094
Less: Preferred Stock	(25,125)	(125)	(25,125)	(125)
Add: Qualifying Capital Securities	25,000	—	25,000	—
Less: Disallowed Goodwill and Intangible Assets	(732,903)	(732,455)	(738,206)	(737,758)
Add: Modified CECL Transition Amount	11,514	11,514	23,028	23,028
Less: Disallowed Deferred Tax Assets	(192)	(193)	(337)	(345)
Total Tier 1 Capital (Regulatory)	1,678,208	1,727,271	1,558,281	1,641,210
Qualifying Subordinated Debentures	143,147	—	143,103	—
Allowance for Loan Losses Includible in Tier 2 Capital	184,046	184,233	180,870	181,086
Total Risk-Based Capital (Regulatory)	\$ 2,005,401	\$ 1,911,504	\$ 1,882,254	\$ 1,822,296
Net Risk-Weighted Assets (Regulatory)	\$ 14,683,329	\$ 14,691,030	\$ 14,392,671	\$ 14,410,136
Average Assets (Regulatory)	\$ 17,430,658	\$ 17,417,618	\$ 17,118,953	\$ 17,092,008
Total Risk-Based Capital Ratio (Regulatory)	13.66 %	13.01 %	13.08 %	12.65 %
Tier 1 Capital to Risk-Weighted Assets	11.43 %	11.76 %	10.83 %	11.39 %
Tier 1 Capital to Average Assets	9.63 %	9.92 %	9.10 %	9.60 %
CET1 Capital Ratio				
Total Tier 1 Capital (Regulatory)	\$ 1,678,208	\$ 1,727,271	\$ 1,558,281	\$ 1,641,210
Less: Qualified Capital Securities	(25,000)	—	(25,000)	—
CET1 Capital (Regulatory)	\$ 1,653,208	\$ 1,727,271	\$ 1,533,281	\$ 1,641,210
Net Risk-Weighted Assets (Regulatory)	\$ 14,683,329	\$ 14,691,030	\$ 14,392,671	\$ 14,410,136
CET1 Capital Ratio (Regulatory)	11.26 %	11.76 %	10.65 %	11.39 %

⁽¹⁾ Includes net unrealized gains or losses on available for sale securities, net gains or losses on cash flow hedges, and amounts resulting from the application of the applicable accounting guidance for defined benefit and other postretirement plans.

In management's view, certain non-GAAP financial measures, when taken together with the corresponding GAAP financial measures and ratios, provide meaningful supplemental information regarding our performance. We believe investors benefit from referring to these non-GAAP financial measures and ratios in assessing our operating results, related trends and when forecasting future periods. However, these non-GAAP financial measures should be considered in addition to, and not a substitute for or preferable to, financial measures and ratios presented in accordance with GAAP.

The Corporation's tangible common equity measures are capital adequacy metrics that are meaningful to the Corporation, as well as analysts and investors, in assessing the Corporation's use of equity and in facilitating period-to-period and company-to-company comparisons. Tangible common equity to tangible assets ratio was 7.69 percent at September 30, 2023, and 7.34 percent at December 31, 2022.

Non-GAAP financial measures such as tangible common equity to tangible assets, tangible earnings per share, return on average tangible assets and return on average tangible equity are important measures of the strength of the Corporation's capital and ability to generate earnings on tangible common equity invested by our shareholders. These non-GAAP measures provide useful supplemental information and may assist investors in analyzing the Corporation's financial position without regard to the effects of intangible assets and preferred stock, but retain the effect of accumulated other comprehensive gains (losses) in shareholder's equity. Disclosure of these measures also allows analysts and banking regulators to assess our capital adequacy on these same bases.

The tables within the "NON-GAAP FINANCIAL MEASURES" section of this Management's Discussion and Analysis of Financial Condition and Results of Operations reconcile traditional GAAP measures to these non-GAAP financial measures at September 30, 2023 and December 31, 2022.

PART I: FINANCIAL INFORMATION
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

LOAN QUALITY AND PROVISION FOR CREDIT LOSSES ON LOANS

The Corporation's primary lending focus is small business and middle market commercial, commercial real estate, public finance and residential real estate, which results in portfolio diversification. Commercial loans are individually underwritten and judgmentally risk rated. They are periodically monitored and prompt corrective actions are taken on deteriorating loans. Consumer loans are typically underwritten with statistical decision-making tools and are managed throughout their life cycle on a portfolio basis.

Loan Maturities

The following tables present the maturity distribution of our loan portfolio, excluding loans held for sale, by collateral classification at September 30, 2023 according to contractual maturities of (1) one year or less, (2) after one year but within five years and (3) after five years. The tables also present the portion of loans by loan classification that have fixed interest rates or variable interest rates that fluctuate over the life of the loans in accordance with changes in an interest rate index.

(Dollars in Thousands)	Maturing Within 1 Year	Maturing 1-5 Years	Maturing Over 5 Years	Total
Commercial and industrial loans	\$ 789,625	\$ 2,380,668	\$ 320,660	\$ 3,490,953
Agricultural land, production and other loans to farmers	67,166	36,355	130,317	233,838
Real estate loans:				
Construction	362,223	448,083	211,955	1,022,261
Commercial real estate, non-owner occupied	350,269	956,714	1,053,613	2,360,596
Commercial real estate, owner occupied	81,915	584,407	487,385	1,153,707
Residential	21,377	136,774	2,099,234	2,257,385
Home Equity	21,958	39,744	547,650	609,352
Individuals' loans for household and other personal expenditures	23,138	98,730	54,655	176,523
Public finance and other commercial loans	10,093	50,087	906,627	966,807
Total	<u>\$ 1,727,764</u>	<u>\$ 4,731,562</u>	<u>\$ 5,812,096</u>	<u>\$ 12,271,422</u>

(Dollars in Thousands)	Maturing Within 1 Year	Maturing 1-5 Years	Maturing Over 5 Years	Total
Commercial and industrial loans	\$ 27,699	\$ 332,511	\$ 180,161	\$ 540,371
Agricultural land, production and other loans to farmers	10,545	26,704	14,613	51,862
Real estate loans:				
Construction	5,246	34,040	174,015	213,301
Commercial real estate, non-owner occupied	130,701	444,206	177,844	752,751
Commercial real estate, owner occupied	44,064	395,518	138,697	578,279
Residential	13,115	112,816	920,546	1,046,477
Home Equity	5,949	9,811	10,005	25,765
Individuals' loans for household and other personal expenditures	5,095	76,523	24,537	106,155
Public finance and other commercial loans	2,855	27,457	875,745	906,057
Total loans with fixed interest rates	<u>\$ 245,269</u>	<u>\$ 1,459,586</u>	<u>\$ 2,516,163</u>	<u>\$ 4,221,018</u>

(Dollars in Thousands)	Maturing Within 1 Year	Maturing 1-5 Years	Maturing Over 5 Years	Total
Commercial and industrial loans	\$ 761,926	\$ 2,048,157	\$ 140,499	\$ 2,950,582
Agricultural land, production and other loans to farmers	56,621	9,651	115,704	181,976
Real estate loans:				
Construction	356,977	414,043	37,940	808,960
Commercial real estate, non-owner occupied	219,568	512,508	875,769	1,607,845
Commercial real estate, owner occupied	37,851	188,889	348,688	575,428
Residential	8,262	23,958	1,178,688	1,210,908
Home Equity	16,009	29,933	537,645	583,587
Individuals' loans for household and other personal expenditures	18,043	22,207	30,118	70,368
Public finance and other commercial loans	7,238	22,630	30,882	60,750
Total loans with variable interest rates	<u>\$ 1,482,495</u>	<u>\$ 3,271,976</u>	<u>\$ 3,295,933</u>	<u>\$ 8,050,404</u>

PART I: FINANCIAL INFORMATION
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Loan Quality

The quality of the loan portfolio and the amount of nonperforming loans may increase or decrease as a result of acquisitions, organic portfolio growth, problem loan recognition and resolution through collections, sales or charge-offs. The performance of any loan can be affected by external factors such as economic conditions, or internal factors specific to a particular borrower, such as the actions of a customer's internal management.

At September 30, 2023, nonperforming loans totaled \$53.1 million, an increase of \$10.6 million from December 31, 2022. Nonaccrual loans totaled \$53.1 million at September 30, 2023, an increase of \$10.8 million from December 31, 2022, primarily due to an \$8.7 million loan to a material handling company that moved to nonaccrual in 2023.

Other real estate owned and repossessions, totaling \$6.5 million at September 30, 2023, increased \$49,000 from December 31, 2022. For other real estate owned, current appraisals are obtained to determine fair value as management continues to aggressively market these real estate assets.

According to applicable accounting guidance, loans that no longer exhibit similar risk characteristics are evaluated individually to determine if there is a need for a specific reserve. Commercial loans under \$500,000 and consumer loans are not individually evaluated. The determination for individual evaluation is made based on current information or events that may suggest it is probable that not all amounts due of principal and interest, according to the contractual terms of the loan agreement, will be substantially collected.

The Corporation's nonperforming assets plus accruing loans 90 days or more delinquent and individually evaluated loans are presented in the table below.

(Dollars in Thousands)	September 30, 2023	December 31, 2022
Nonperforming Assets:		
Nonaccrual loans	\$ 53,102	\$ 42,324
Renegotiated loans	—	224
Nonperforming loans (NPL)	53,102	42,548
OREO and Repossessions	6,480	6,431
Nonperforming assets (NPA)	59,582	48,979
Loans 90-days or more delinquent and still accruing	89	1,737
NPAs and loans 90-days or more delinquent	<u>\$ 59,671</u>	<u>\$ 50,716</u>

The composition of nonperforming assets plus accruing loans 90-days or more delinquent is reflected in the following table by loan class.

(Dollars in Thousands)	September 30, 2023	December 31, 2022
Nonperforming assets and loans 90-days or more delinquent:		
Commercial and industrial loans	\$ 14,749	\$ 4,439
Agricultural land, production and other loans to farmers	61	54
Real estate loans:		
Construction	724	12
Commercial real estate, non-owner occupied	17,431	25,494
Commercial real estate, owner occupied	3,125	3,550
Residential	20,661	14,315
Home equity	2,818	2,742
Individuals' loans for household and other personal expenditures	102	110
Nonperforming assets and loans 90-days or more delinquent:	<u>\$ 59,671</u>	<u>\$ 50,716</u>

Provision and Allowance for Credit Losses on Loans

The Corporation adopted FASB Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ("CECL") on January 1, 2021. CECL replaces the previous "incurred loss" model with an "expected loss" model of measuring credit losses, which encompasses allowances for losses expected to be incurred over the life of the portfolio. The new CECL model requires the measurement of all expected credit losses for financial assets measured at amortized cost based on historical experiences, current conditions and reasonable and supportable forecasts. CECL also requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses, as well as credit quality and underwriting standards of an organization's portfolio. Additional details of the Corporation's CECL methodology and allowance calculation are discussed within NOTE 4. LOANS AND ALLOWANCE of the Notes to Consolidated Condensed Financial Statements of this Quarterly Report on Form 10-Q.

The CECL allowance is maintained through the provision for credit losses, which is a charge against earnings. Based on management's judgment as to the appropriate level of the allowance for credit losses, the amount provided in any period may be greater or less than net loan losses for the same period. The determination of the provision amount and the adequacy of the allowance in any period is based on management's continuing review and evaluation of the loan portfolio.

PART I: FINANCIAL INFORMATION
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Corporation's loan balances, excluding loans held for sale, increased \$267.5 million from December 31, 2022 to \$12.3 billion at September 30, 2023. At September 30, 2023, the allowance for credit losses totaled \$205.8 million, which represents a decrease of \$17.5 million from December 31, 2022. As a percentage of loans, the allowance for credit losses was 1.68 percent compared to 1.86 percent at December 31, 2022.

Net charge-offs totaling \$20.4 million and \$22.5 million, respectively, were recognized for the three and nine months ended September 30, 2023. There were two large commercial and industrial loan charge-offs of \$13.7 million and \$5.4 million in the third quarter of 2023, the largest of which was due to the charge-off of a previously reported nonaccrual loan to a syndicated specialty finance company resulting from alleged fraud that impacted our borrower's ability to repay. The effect of the third quarter charge-offs on the ACL- loans was offset by provision expense on loans of \$5.0 million in the third quarter of 2023. Reserves for unfunded commitments were reduced by \$3.0 million due to a decline in unfunded commitment balances, which resulted in a net provision expense of \$2.0 million in the third quarter of 2023, as compared to no provision expense in the same period of 2022. There was \$16.8 million in provision for credit losses for the nine months ended September 30, 2022 which related to the acquisition of Level One Bank. Net recoveries totaling \$427,000 and \$751,000, respectively, were recognized for the three and nine months ended September 30, 2022.

For the three and nine months ended September 30, 2023, there were the two aforementioned individual charge-offs greater than \$500,000, that totaled \$19.1 million. For the three and nine months ended September 30, 2022, there were no individual recoveries greater than \$500,000. For the three and nine months ended September 30, 2022, there were no individual charge-offs greater than \$500,000. For the three months ended September 30, 2022, there was one individual recovery greater than \$500,000, that totaled \$515,000. For the nine months ended September 30, 2022, there were two individual recoveries greater than \$500,000, that totaled \$1.2 million. The distribution of the net charge-offs (recoveries) for the three and nine months ended September 30, 2023 and 2022 are reflected in the following table.

(Dollars in Thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Net charge-offs (recoveries):				
Commercial and industrial loans	\$ 19,654	\$ 225	\$ 19,937	\$ 239
Agricultural land, production and other loans to farmers	—	—	—	(4)
Real estate loans:				
Construction	—	(824)	—	(824)
Commercial real estate, non-owner occupied	—	(171)	(44)	(68)
Commercial real estate, owner occupied	—	(16)	(8)	(905)
Residential	(14)	(77)	67	(55)
Home equity	437	264	1,749	235
Individuals' loans for household and other personal expenditures	288	172	794	631
Total net charge-offs (recoveries)	\$ 20,365	\$ (427)	\$ 22,495	\$ (751)

Management continually evaluates the commercial loan portfolio by including consideration of specific borrower cash flow analysis and estimated collateral values, types and amounts on nonperforming loans, past and anticipated credit loss experience, changes in the composition of the loan portfolio, and the current condition and amount of loans outstanding. The determination of the provision for credit losses in any period is based on management's continuing review and evaluation of the loan portfolio, and its judgment as to the impact of current economic conditions on the portfolio. The allowance for credit losses remains robust, along with \$24.9 million of fair value accretion remaining on the acquired portfolio. The Corporation continues to monitor economic forecast changes, loan growth and credit quality to determine provision needs in the future.

LIQUIDITY

Liquidity management is the process by which the Corporation ensures that adequate liquid funds are available for the holding company and its subsidiaries. These funds are necessary in order to meet financial commitments on a timely basis. These commitments include withdrawals by depositors, funding credit obligations to borrowers, paying dividends to stockholders, paying operating expenses, funding capital expenditures, and maintaining deposit reserve requirements. Liquidity is monitored and closely managed by the asset/liability committee.

The Corporation's liquidity is dependent upon the receipt of dividends from the Bank, which is subject to certain regulatory limitations and access to other funding sources. Liquidity of the Bank is derived primarily from core deposit growth, principal payments received on loans, the sale and maturity of investment securities, net cash provided by operating activities, and access to other funding sources.

The principal source of asset-funded liquidity is investment securities classified as available for sale, the market values of which totaled \$1.5 billion at September 30, 2023, a decrease of \$476.5 million, or 24.1 percent, from December 31, 2022. Securities classified as held to maturity that are maturing within a short period of time can also be a source of liquidity. Securities classified as held to maturity and that are maturing in one year or less totaled \$9.4 million at September 30, 2023. In addition, other types of assets such as cash and interest-bearing deposits with other banks, federal funds sold and loans maturing within one year are sources of liquidity.

The most stable source of liability-funded liquidity for both the long-term and short-term is deposit growth and retention in the core deposit base. Federal funds purchased and securities sold under agreements to repurchase are also considered a source of liquidity. In addition, FHLB advances are utilized as a funding source. At September 30, 2023, total borrowings from the FHLB were \$713.4 million. The Bank has pledged certain mortgage loans and investments to the FHLB. The total available remaining borrowing capacity from the FHLB at September 30, 2023 was \$702.7 million.

PART I: FINANCIAL INFORMATION
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

In March 2023, the Federal Reserve created the Bank Term Funding Program ("BTFP"). The BTFP is a new facility established in response to recent liquidity concerns within the banking industry in part due to recent deposit runs that resulted in a few large bank failures. The BTFP was designed to provide available additional funding to eligible depository institutions in order to help assure that banks have the ability to meet the needs of all their depositors. Under the program, eligible depository institutions can obtain loans of up to one year in length by pledging U.S. Treasuries, agency debt and mortgage-backed securities, and other qualifying assets as collateral. These assets will be valued at par. The BTFP is intended to eliminate the need for depository institutions to quickly sell their securities when they are experiencing stress on their liquidity. As of September 30, 2023, the Bank has no outstanding balance from the BTFP facility.

The Corporation and the Bank receive outside credit ratings from Moody's. Both the Corporation and the Bank currently have Issuer Ratings of Baa1. Additionally, the Bank has a Baseline Credit Assessment Rating of a3. Management considers these ratings to be indications of a sound capital base and strong liquidity and believes that these ratings would help ensure the ready marketability of its commercial paper. Because of the Corporation's and Bank's current levels of long-term debt, management believes it could generate additional liquidity from various sources should the need arise.

The following table presents the Corporation's material cash requirements from known contractual and other obligations at September 30, 2023:

(Dollars in Thousands)	Payments Due In		
	One Year or Less	Over One Year	Total
Deposits without stated maturity	\$ 12,524,202	\$ —	\$ 12,524,202
Certificates and other time deposits	1,940,694	181,680	2,122,374
Securities sold under repurchase agreements	152,537	—	152,537
Federal Home Loan Bank advances	125,096	588,288	713,384
Federal Funds Purchased	—	—	—
Subordinated debentures and term loans	1,325	157,340	158,665
Total	\$ 14,743,854	\$ 927,308	\$ 15,671,162

Also, in the normal course of business, the Bank is a party to a number of other off-balance sheet activities that contain credit, market and operational risk that are not reflected in whole or in part in our consolidated financial statements. These activities primarily consist of traditional off-balance sheet credit-related financial instruments such as loan commitments and standby letters of credit.

Summarized credit-related financial instruments at September 30, 2023 are as follows:

(Dollars in Thousands)	September 30, 2023
Amounts of commitments:	
Loan commitments to extend credit	\$ 5,074,572
Standby and commercial letters of credit	39,812
	\$ 5,114,384

Since many of the commitments are expected to expire unused or be only partially used, the total amount of unused commitments in the preceding table does not necessarily represent future cash requirements.

INTEREST SENSITIVITY AND DISCLOSURE ABOUT MARKET RISK

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 review how changes in interest rates may 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.

It is the objective of the Corporation to monitor and manage risk exposure to net interest income caused by changes in interest rates. It is the goal of the Corporation's Asset/Liability management function to provide optimum and stable net interest income. To accomplish this, management uses two asset liability tools. GAP/Interest Rate Sensitivity Reports and Net Interest Income Simulation Modeling are constructed, presented and monitored quarterly. Management believes that the Corporation's liquidity and interest sensitivity position at September 30, 2023, remained adequate to meet the Corporation's primary goal of achieving optimum interest margins while avoiding undue interest rate risk.

Net interest income simulation modeling, or earnings-at-risk, measures the sensitivity of net interest income to various interest rate movements. The Corporation's asset liability process monitors simulated net interest income under three separate interest rate scenarios; base, rising and falling. Estimated net interest income for each scenario is calculated over a twelve-month horizon. The immediate and parallel changes to the base case scenario used in the model are presented below. The interest rate scenarios are used for analytical purposes and do not necessarily represent management's view of future market movements. Rather, these are intended to provide a measure of the degree of volatility interest rate movements may introduce into the earnings of the Corporation.

PART I: FINANCIAL INFORMATION
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The base scenario is highly dependent on numerous assumptions embedded in the model, including assumptions related to future interest rates. While the base sensitivity analysis incorporates management's best estimate of interest rate and balance sheet dynamics under various market rate movements, the actual behavior and resulting earnings impact will likely differ from that projected. For certain assets, the base simulation model captures the expected prepayment behavior under changing interest rate environments. Assumptions and methodologies regarding the interest rate or balance behavior of indeterminate maturity products, such as savings, money market, interest-bearing and demand deposits, reflect management's best estimate of expected future behavior. Historical retention rate assumptions are applied to non-maturity deposits for modeling purposes.

The comparative rising 200 basis points and falling 100 basis points scenarios below, as of September 30, 2023 and December 31, 2022, assume further interest rate changes in addition to the base simulation discussed above. These changes are immediate and parallel changes to the base case scenario.

Results for the rising 200 basis points, and falling 100 basis points interest rate scenarios are listed below based upon the Corporation's rate sensitive assets and liabilities at September 30, 2023 and December 31, 2022. The change from the base scenario represents cumulative net interest income over a twelve-month time horizon. Balance sheet assumptions used for the base scenario are the same for the rising and falling simulations.

	September 30, 2023	December 31, 2022
Rising 200 basis points from base case	1.5 %	2.8 %
Falling 100 basis points from base case	(1.1)%	(2.3)%

OTHER

The Securities and Exchange Commission maintains a web site that contains reports, proxy and information statements and other information regarding registrants that file electronically with the Commission, including the Corporation, and that address is (<http://www.sec.gov>).

PART I: FINANCIAL INFORMATION
ITEM 3. QUANTITATIVE AND QUALITATIVE
DISCLOSURES ABOUT MARKET RISK

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information required under this item is included as part of Management's Discussion and Analysis of Financial Condition and Results of Operations, under the headings "LIQUIDITY" and "INTEREST SENSITIVITY AND DISCLOSURE ABOUT MARKET RISK".

PART I: FINANCIAL INFORMATION
ITEM 4. CONTROLS AND PROCEDURES

ITEM 4. CONTROLS AND PROCEDURES

At the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective. Disclosure controls and procedures are controls and procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934 are recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

There have been no changes in the Corporation's internal control over financial reporting identified in connection with the evaluation discussed above that occurred during the Corporation's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

PART II: OTHER INFORMATION
ITEM 1., ITEM 1A., ITEM 2., ITEM 3., ITEM 4. AND ITEM 5.
(table dollar amounts in thousands, except share data)

ITEM 1. LEGAL PROCEEDINGS

There are no pending legal proceedings, other than litigation incidental to the ordinary business of the Corporation or its subsidiaries, of a material nature to which the Corporation or its subsidiaries is a party or of which any of their properties is subject. Further, there are no material legal proceedings in which any director, officer, principal shareholder, or affiliate of the Corporation, or any associate of any such director, officer or principal shareholder, is a party, or has a material interest, adverse to the Corporation or any of its subsidiaries.

None of the routine legal proceedings, individually or in the aggregate, in which the Corporation or its affiliates are involved are expected to have a material adverse impact on the financial position or the results of operations of the Corporation.

ITEM 1A. RISK FACTORS

Except for the additional risk factors set forth below, there have been no material changes to the risk factors previously disclosed in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2022.

- *Adverse developments affecting the financial services industry, such as recent bank failures or concerns involving liquidity, may have a material effect on our operations.*

Recent events relating to the failures of Silicon Valley Bank and Signature Bank in March 2023 has caused general uncertainty and concerns regarding the adequacy of liquidity in the banking sector as a whole. A financial institution's liquidity reflects its ability to meet customer demand for loans, accommodating possible outflows in deposits and accessing alternative sources of funds when needed, while at the same time taking advantage of interest rate market opportunities. The ability to manage liquidity is fundamental to a financial institution's business and success. The bank failures in March 2023 highlight the potential results of an insured depository institution unexpectedly having to obtain needed liquidity to satisfy deposit withdrawal requests, including how quickly such requests can accelerate once uninsured depositors lose confidence in an institution's ability to satisfy its obligations to depositors. Current market uncertainties and other external factors may impact the competitive landscape for deposits in the banking industry in an unpredictable manner. In addition, the rising interest rate environment has continued to increase competition for liquidity and the premium at which liquidity is available to meet funding needs. These possible impacts may adversely affect our future operating results, including net income, and negatively impact capital.

- *Regulatory requirements arising from recent events in the financial services industry, or the application of current regulations, could increase our expenses and affect our operations.*

We anticipate the potential of new regulations for banks of similar size to the Bank, designed to address the recent developments in the financial services industry, which may increase our costs of doing business and reduce our profitability. Among other things, there may be an increased focus by both regulators and investors on deposit composition and the level of uninsured deposits. We also expect that another result of the recent bank failures, as well as any future bank failures, will be an increase to our FDIC insurance premiums in future years, further increasing our cost of doing business.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

a. None

b. None

c. Issuer Purchases of Equity Securities

The following table presents information relating to our purchases of equity securities during the three months ended September 30, 2023.

Period	Total Number of Shares Purchased ⁽¹⁾	Average Price Paid per Share	Total Number of Shares Purchased as part of Publicly announced Plans or Programs	Maximum Number of Shares that may yet be Purchased Under the Plans or Programs ⁽²⁾
July, 2023	—	\$ —	—	2,686,898
August, 2023	39,767	\$ 31.93	—	2,686,898
September, 2023	544	\$ 30.42	—	2,686,898
Total	<u>40,311</u>		<u>—</u>	

⁽¹⁾ During the three months ended September 30, 2023, there were no shares repurchased pursuant to the Corporation's share repurchase program described in note (2) below. The share repurchases in August and September 2023 represent shares repurchased pursuant to net settlement by employees in satisfaction of income tax withholding obligations incurred through the vesting of the Corporation's restricted stock awards and are not a part of the Corporation's share repurchase program described in note (2) below.

⁽²⁾ On January 27, 2021, the Board of Directors of the Corporation approved a stock repurchase program of up to 3,333,000 shares of the Corporation's outstanding common stock; provided, however, that the total aggregate investment in shares repurchased under the program may not exceed \$100,000,000. The program does not have an expiration date. However, it may be discontinued by the Board at any time. Since commencing the program, the Corporation has repurchased a total of 646,102 shares of common stock for a total aggregate investment of \$25,443,391.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

PART II: OTHER INFORMATION
ITEM 1., ITEM 1A., ITEM 2., ITEM 3., ITEM 4. AND ITEM 5.
(table dollar amounts in thousands, except share data)

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable

ITEM 5. OTHER INFORMATION

a. None

b. None

c. During the three months ended September 30, 2023, no director or officer of the Corporation adopted or terminated a "Rule 10b5-1 trading arrangement" or "non-Rule 10b5-1 trading arrangement," as each term is defined in Item 408(a) of Regulation S-K.

PART II: OTHER INFORMATION
ITEM 6. EXHIBITS

ITEM 6. EXHIBITS

Exhibit No:	Description of Exhibits:
3.1	First Merchants Corporation Articles of Incorporation, as amended (Incorporated by reference to Exhibit 3.1 of registrant's Form 8-K filed on March 24, 2022) (SEC No. 000-17071)
3.2	Bylaws of First Merchants Corporation effective as of June 22, 2022 (Incorporated by reference to Exhibit 3.1 of registrant's Form 8-K filed on June 23, 2022) (SEC No. 001-41342)
4.1	First Merchants Corporation Amended and Restated Declaration of Trust of First Merchants Capital Trust II dated as of July 2, 2007 (Incorporated by reference to Exhibit 4.1 of registrant's Form 8-K filed on July 3, 2007) (SEC No. 000-17071)
4.2	Indenture dated as of July 2, 2007 (Incorporated by reference to Exhibit 4.2 of registrant's Form 8-K filed on July 3, 2007) (SEC No. 000-17071)
4.3	Guarantee Agreement dated as of July 2, 2007 (Incorporated by reference to Exhibit 4.3 of registrant's Form 8-K filed on July 3, 2007) (SEC No. 000-17071)
4.4	Form of Capital Securities Certification of First Merchants Capital Trust II (Incorporated by reference to Exhibit 4.4 of registrant's Form 8-K filed on July 3, 2007) (SEC No. 000-17071)
4.5	First Merchants Corporation Dividend Reinvestment and Stock Purchase Plan (Incorporated by reference to registrant's Prospectus filed pursuant to Rule 424(b)(3) on July 17, 2020) (SEC No. 333-229527)
4.6	Upon request, the registrant agrees to furnish supplementally to the Commission a copy of the instruments defining the rights of holders of its (a) 5.00% Fixed-to-Floating Rate Senior Notes due 2028 in the aggregate principal amount of \$5 million and (b) 6.75% Fixed-to-Floating Rate Subordinated Notes due 2028 in aggregate principal amount of \$65 million.
4.7	Deposit Agreement by and among First Merchants Corporation, Broadridge Corporate Issuer Solutions, Inc., as depository, and holders from time to time of the depository receipts described therein, as amended on March 30, 2022 (Incorporated by reference to Exhibit 4.1 of registrant's Form 8-A filed on March 30, 2022) (SEC No. 001-41342)
4.8	Form of Depository Receipt (Incorporated by reference to Exhibit 4.2 of registrant's Form 8-A filed on March 30, 2022) (SEC No. 001-41342)
4.9	Indenture, dated as of December 18, 2019, between First Merchants Corporation (as successor to Level One Bancorp, Inc.) and Wilmington Trust, National Association, as trustee (Incorporated by reference to Exhibit 4.1 of Level One Bancorp, Inc.'s Form 8-K filed on December 19, 2019) (SEC No. 001-38458)
4.10	First Supplemental Indenture, dated as of March 31, 2022, among First Merchants Corporation, Level One Bancorp, Inc. and Wilmington Trust, National Association, as trustee (Incorporated by reference to Exhibit 4.11 of registrant's Form 10-K filed on March 1, 2023) (SEC No. 001-41342)
4.11	Form of 4.75% Fixed-to-Floating Rate Subordinated Notes due 2029 (Incorporated by reference to Exhibit 4.2 of Level One Bancorp, Inc.'s Form 8-K filed on December 19, 2019) (SEC No. 001-38458)
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes - Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes - Oxley Act of 2002 (1)
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes - Oxley Act of 2002 (1)
32	Certifications Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (2)
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document (1)
101.SCH	Inline XBRL Taxonomy Extension Schema Document (1)
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document (1)
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document (1)
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document (1)
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document (1)
104	Cover Page Interactive Data File (formatted as Inline XBRL and included in Exhibit 101)

(1) Filed herewith.

(2) Furnished herewith.

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)

November 1, 2023

by /s/ Mark K. Hardwick
Mark K. Hardwick
Chief Executive Officer
(Principal Executive Officer)

November 1, 2023

by /s/ Michele M. Kawiecki
Michele M. Kawiecki
Executive Vice President, Chief Financial Officer
(Principal Financial and Accounting Officer)

PART II: OTHER INFORMATION
ITEM 6. EXHIBITS

EXHIBIT-31.1

**CERTIFICATIONS PURSUANT TO
SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002**

CERTIFICATION

I, Mark K. Hardwick, Chief Executive Officer of First Merchants Corporation, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of First Merchants Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in the Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 1, 2023

By: /s/ Mark K. Hardwick
Mark K. Hardwick
Chief Executive Officer
(Principal Executive Officer)

PART II: OTHER INFORMATION
ITEM 6. EXHIBITS

EXHIBIT-31.2

**CERTIFICATIONS PURSUANT TO
SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002**

CERTIFICATION

I, Michele M. Kawiecki, Executive Vice President and Chief Financial Officer of First Merchants Corporation, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of First Merchants Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in the Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 1, 2023

By: /s/ Michele M. Kawiecki
Michele M. Kawiecki
Executive Vice President,
Chief Financial Officer
(Principal Financial and Accounting
Officer)

PART II: OTHER INFORMATION
ITEM 6. EXHIBITS

EXHIBIT-32

**CERTIFICATIONS PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of First Merchants Corporation (the "Corporation") on Form 10-Q for the period ending September 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Mark K. Hardwick, Chief Executive Officer of the Corporation, do hereby certify, in accordance with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o (d)); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

November 1, 2023

By: /s/ Mark K. Hardwick
Mark K. Hardwick
Chief Executive Officer
(Principal Executive Officer)

A signed copy of this written statement required by Section 906 has been provided to First Merchants Corporation and will be retained by First Merchants Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

In connection with the Quarterly Report of First Merchants Corporation (the "Corporation") on Form 10-Q for the period ending September 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michele M. Kawiecki, Executive Vice President, and Chief Financial Officer of the Corporation, do hereby certify, in accordance with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o (d)); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

November 1, 2023

By: /s/ Michele M. Kawiecki
Michele M. Kawiecki
Executive Vice President,
Chief Financial Officer
(Principal Financial and Accounting
Officer)

A signed copy of this written statement required by Section 906 has been provided to First Merchants Corporation and will be retained by First Merchants Corporation and furnished to the Securities and Exchange Commission or its staff upon request.