UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

[Mark One]

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

For the fiscal year ended December 31, 2019

OR

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

For the transition period from __________to_________

Commission file number 0-17071

FIRST MERCHANTS CORPORATION

(Exact name of registrant as specified in its charter)

Indiana	**35-1544218**
(State or other jurisdiction of incorporation or organization)	(I.R.S. 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	Nasdaq Global Select Market

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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, 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 Act). Yes ☐ No☒

The aggregate market value (not necessarily a reliable indication of the price at which more than a limited number of shares would trade) of the voting stock held by non-affiliates of the registrant was $1,874,405,000 as of the last business day of the registrant's most recently completed second fiscal quarter (June 30, 2019).

As of February 21, 2020 there were 55,155,733 outstanding common shares, without par value, of the registrant.

DOCUMENTS INCORPORATED BY REFERENCE

Documents	Part of Form 10-K into which incorporated
Portions of the Registrant's Definitive Proxy Statement for Annual Meeting of Shareholders to be held May 13, 2020	Part III (Items 10 through 14)

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GLOSSARY OF DEFINED TERMS

FIRST MERCHANTS CORPORATION

Ameriana	Ameriana Bancorp, Inc., which was acquired by the Corporation on December 31, 2015.
Arlington Bank	The Arlington Bank, which was acquired by the Corporation on May 19, 2017
ASC	Accounting Standards Codification
AOCI	Accumulated Other Comprehensive Income
Bank	First Merchants Bank, a wholly-owned subsidiary of the Corporation
BHC Act	Bank Holding Company Act of 1956
CET1	Common Equity Tier 1
C Financial	C Financial Corporation, which was acquired by the Corporation on April 17, 2015.
CFPB	Consumer Financial Protection Bureau
CMT	Constant Maturity Treasury
Corporation	First Merchants Corporation
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
ERISA	Employee Retirement Income Security Act of 1974
ESPP	Employee Stock Purchase Plan
FDIC	Federal Deposit Insurance Corporation
FDICIA	Federal Deposit Insurance Corporation Improvement Act of 1991
Federal Reserve	Federal Reserve Banking System
FHLB	Federal Home Loan Bank
FMIG	First Merchants Insurance Services, Inc., an Indiana corporation
FTE	Fully taxable equivalent
GAAP	Accounting Principles Generally Accepted in the United States of America
IAB	Independent Alliance Banks, Inc., which was acquired by the Corporation on July 14, 2017
Indiana DFI	Indiana Department of Financial Institutions
MBT	MBT Financial Corp., which was acquired by the Corporation on September 1, 2019
OCC	Office of the Comptroller of the Currency
OREO	Other real estate owned
OTTI	Other-than-temporary impairment
RSA	Restricted Stock Awards
Sarbanes-Oxley Act	Sarbanes-Oxley Act of 2002
Savings Plan	The First Merchants Corporation Retirement and Income Savings Plan
SEC	Securities and Exchange Commission
TCJA	Tax Cuts and Jobs Act, which was enacted by the U.S. Government on December 22, 2017
TEFRA	Tax Equity and Fiscal Responsibility Act. The TEFRA disallowance reduces the amount of interest expense an entity may deduct for the purpose of carrying tax-free investment securities.
Treasury	U.S. Department of Treasury
USI	USI Insurance Services, LLC

FORWARD-LOOKING STATEMENTS

The Corporation from time to time includes forward-looking statements in its oral and written communication. The Corporation may include forward-looking statements in filings with the SEC, such as its Annual Reports on Form 10-K and its Quarterly Reports on Form 10-Q, in other written materials and oral statements made by senior management to analysts, investors, representatives of the media and others. The Corporation intends 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 the Corporation is 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, those discussed in Item 1A, “RISK FACTORS”.

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

PART I

ITEM 1. BUSINESS

GENERAL

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 Global Select Market under the symbol FRME. The Corporation has one full-service bank charter, First Merchants Bank, which 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 128 banking locations in thirty Indiana, two Illinois, two Ohio and two Michigan counties. 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 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.

All inter-company transactions are eliminated during the preparation of consolidated financial statements.

As of December 31, 2019, the Corporation had consolidated assets of $12.5 billion, consolidated deposits of $9.8 billion and stockholders' equity of $1.8 billion. As of December 31, 2019, the Corporation and its subsidiaries had 1,891 full-time equivalent employees.

AVAILABLE INFORMATION

The Corporation makes its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, available on its website at https://www.firstmerchants.com without charge, as soon as reasonably practicable, after such reports are electronically filed with, or furnished to, the Securities and Exchange Commission. The SEC maintains an internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, including the Corporation. Those filings are accessible on the SEC's website at *http://www.sec.gov*.

ACQUISITION AND DIVESTITURE POLICY

The Corporation anticipates that it will continue its policy of geographic expansion of its banking business through the acquisition of banks whose operations are consistent with its banking philosophy. Management routinely explores opportunities to acquire financial institutions and other financial services-related businesses and to enter into strategic alliances to expand the scope of its services and its customer base. Future acquisitions and divestitures will be driven by a disciplined financial evaluation process and will be consistent with the Corporation's strategy of community banking, client relationships and consistent quality earnings. As with previous acquisitions, the consideration paid in future acquisitions may be in the form of cash or First Merchants common stock, or a combination thereof. The amount and structure of such consideration is based on reasonable growth, synergies and economies of scale and a thorough analysis of the impact on both long- and short-term financial results.

On September 1, 2019, the Corporation acquired 100 percent of MBT. MBT was headquartered in Monroe, Michigan and had 20 banking centers serving the Monroe market. Pursuant to the merger agreement, each MBT shareholder received 0.275 shares of the Corporation's common stock for each outstanding share of MBT common stock held. The Corporation issued approximately 6.4 million shares of common stock, which was valued at approximately $229.9 million. Details of the MBT acquisition can be found in NOTE 2. ACQUISITION of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

On November 21, 2016, the Corporation purchased 495,112 shares, or 12.1 percent, of IAB's outstanding common stock from an IAB shareholder for $19.8 million, or $40.00 per share. On July 14, 2017, the Corporation acquired the remaining shares of IAB common stock. IAB was headquartered in Fort Wayne, Indiana and had 16 banking centers serving the Fort Wayne market. Pursuant to the merger agreement, each IAB shareholder received 1.653 shares of the Corporation's common stock for each outstanding share of IAB common stock held. The Corporation issued approximately 6.0 million shares of common stock. The transaction value for the remaining shares of common stock, not owned by the Corporation, was approximately $238.8 million, resulting in a total purchase price of $258.6 million.

On May 19, 2017, the Corporation acquired 100 percent of Arlington Bank. Arlington Bank was headquartered in Columbus, Ohio and had 3 banking centers serving the Columbus, Ohio market. Pursuant to the merger agreement, each Arlington Bank shareholder received 2.7245 shares of the Corporation's common stock for each outstanding share of Arlington Bank common stock held. The Corporation issued approximately 2.1 million shares of common stock, which was valued at approximately $82.6 million.

On December 31, 2015, the Corporation acquired 100 percent of Ameriana. Ameriana was headquartered in New Castle, Indiana and had 13 full service banking centers in east central and central Indiana. Pursuant to the merger agreement, shareholders of Ameriana received .9037 shares of the Corporation's common stock for each share of Ameriana common stock held. The Corporation issued approximately 2.8 million shares of common stock, which was valued at approximately $70.4 million.

On June 12, 2015, the Corporation sold all of its stock in FMIG to USI, a Delaware limited liability company. The sale price was $18.0 million, of which $16.0 million was paid at closing with the remaining $2.0 million paid through a two-year promissory note. The sale of FMIG generated a pre-tax gain on sale of $8.3 million.

PART I: ITEM 1. BUSINESS

On April 17, 2015, the Corporation acquired 100 percent of C Financial. C Financial was headquartered in Columbus, Ohio and had 6 full service banking centers serving the Columbus, Ohio market. Pursuant to the merger agreement, shareholders of C Financial received $6.738 in cash for each share of C Financial stock held, resulting in a total purchase price of $14.5 million.

COMPETITION

The Bank is located in Indiana, Ohio, Michigan and Illinois counties where other financial services companies provide similar banking services. In addition to the competition provided by the lending and deposit gathering subsidiaries of national manufacturers, retailers, insurance companies and investment brokers, the Bank competes vigorously with other banks, thrift institutions, credit unions and finance companies located within its service areas.

REGULATION AND SUPERVISION OF FIRST MERCHANTS CORPORATION AND SUBSIDIARIES

Bank Holding Company Regulation

The Corporation is registered as a bank holding company and has elected to be a financial holding company. It is subject to the supervision of, and regulation by the Board of Governors of the Federal Reserve under the BHC Act, as amended. Bank holding companies are required to file periodic reports with and are subject to periodic examination by the Federal Reserve. The Federal Reserve has issued regulations under the BHC Act requiring a bank holding company to serve as a source of financial and managerial strength to the Bank. Thus, it is the policy of the Federal Reserve that a bank holding company should stand ready to use its resources to provide adequate capital funds to the Bank during periods of financial stress or adversity. Additionally, under the FDICIA, a bank holding company is required to guarantee the compliance of any subsidiary bank that may become “undercapitalized” (as defined in the FDICIA section of this Form 10-K) with the terms of any capital restoration plan filed by such subsidiary with its appropriate federal banking agency. Under the BHC Act, the Federal Reserve has the authority to require a bank holding company to terminate any activity or relinquish control of a non-bank subsidiary (other than a non-bank subsidiary of a bank) upon the determination that such activity constitutes a serious risk to the financial stability of any bank subsidiary.

The BHC Act requires the Corporation to obtain the prior approval of the Federal Reserve before:

- acquiring direct or indirect control or ownership of any voting shares of any bank or bank holding company if, after such acquisition, the bank holding company will directly or indirectly own or control more than 5 percent of the voting shares of the bank or bank holding company;
- merging or consolidating with another bank holding company; or
- acquiring substantially all of the assets of any bank.

The BHC Act generally prohibits bank holding companies that have not become financial holding companies from (i) engaging in activities other than banking or managing or controlling banks or other permissible subsidiaries, and (ii) acquiring or retaining direct or indirect control of any company engaged in the activities other than those activities determined by the Federal Reserve to be closely related to banking or managing or controlling banks.

Capital Adequacy Guidelines for Bank Holding Companies

In July 2013, the United States banking regulators adopted new capital rules which modified the risk-based capital and leverage capital requirements applicable to bank holding companies and depository institutions. These rules are commonly known as "Basel III". Basel III was effective for the Corporation on January 1, 2015. Basel III addresses the components of capital and other issues affecting the numerator in banking institutions' regulatory capital ratios. Basel III also implements the requirements of Section 939A of the Dodd-Frank Act to remove references to credit ratings from the federal banking agencies' rules. Certain of the Basel III rules came into effect for the Corporation and the Bank on January 1, 2015, and the balance of the rules were subject to a phase-in period which continued through January 1, 2019.

Basel III introduced a new capital measure CET1. Basel III specifies that Tier 1 capital consists of CET1 and "Additional Tier 1 Capital" instruments meeting specified requirements. CET1 capital consists of common stock instruments that meet the eligibility criteria, retained earnings, accumulated other comprehensive income and CET1 minority interest. Basel III also defines CET1 narrowly by requiring that most adjustments to regulatory capital measures be made to CET1, and not to the other components of capital.

Basel III requires the Corporation to maintain a minimum ratio of CET1 to risk weighted assets, as defined in the regulation. Under Basel III, in order to avoid limitations on capital distributions, including dividends, the Corporation must hold a capital conservation buffer above the adequately capitalized CET1 to risk-weighted assets ratio. The capital conservation buffer was phased in from zero percent in 2015 to the fully- implemented 2.50 percent in 2019.

As of January 1, 2019, Basel III requires banking organizations to maintain:

- a minimum ratio of CET1 to risk-weighted assets of a least 4.5 percent, plus the 2.5 percent capital conservation buffer effectively resulting in a minimum ratio of CET1 to risk-weighted assets of at least 7.0 percent;
- a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0 percent, plus the 2.5 percent capital conservation buffer effectively resulting in a minimum Tier 1 capital ratio of 8.5 percent;
- a minimum ratio of total capital (Tier 1 plus Tier 2 capital) to risk-weighted assets of at least 8.0 percent, plus the 2.5 percent capital conservation buffer effectively resulting in a minimum total capital ratio of 10.5 percent; and
- a minimum leverage ratio of 4.0 percent, calculated as the ratio of Tier 1 capital to adjusted average consolidated assets.

Basel III also provides for a “countercyclical capital buffer” that is applicable to only certain covered institutions and is not expected to have any current applicability to the Corporation or the Bank.

The aforementioned capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the conservation buffer will face limitations on the payment of dividends, common stock repurchases and discretionary cash payments to executive officers based on the amount of the shortfall.

Basel III provides for a number of deductions from and adjustments to CET1. These include, for example, the requirement that mortgage servicing rights, deferred tax assets dependent upon future taxable income and significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10 percent of CET1 or all such categories in the aggregate exceed 15 percent of CET1. Under Basel III, the Corporation and the Bank were given a one-time election (the “Opt-out Election”) to filter out certain AOCI components. The AOCI Opt-out Election was made on the March 31, 2015 Call Report and FR Y-9C for the Bank and the Corporation, respectively.

Implementation of the deductions and other adjustments to CET1 began on January 1, 2015 and were phased-in over a five-year period (20 percent per year). The implementation of the capital conservation buffer began on January 1, 2016 at the 0.625 percent level and was phased-in over a four-year period (increasing by that amount on each subsequent January 1, until it reached 2.5 percent on January 1, 2019).

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. Should the Corporation exceed $15 billion in assets as the result of a merger or acquisition, then the Tier 1 treatment of its outstanding trust preferred securities will be phased out, but those securities will still be treated as Tier 2 capital. Basel III permits banks with less than $250 billion in assets to choose to continue excluding unrealized gains and losses on certain securities holdings for purposes of calculating regulatory capital. The rules limit a banking organization’s capital distributions and certain discretionary bonus payments if the banking organization does not hold a “capital conservation buffer” consisting of a specified amount of CET1 capital in addition to the amount necessary to meet its minimum risk-based capital requirements.

Historically, the regulation and monitoring of a bank and bank holding company's liquidity has been addressed as a supervisory matter, without minimum required formulaic measures. The Basel III liquidity framework requires banks and bank holding companies to measure their liquidity against specific liquidity tests that, although similar in some respects to liquidity measures historically applied by banks and regulators for management and supervisory purposes, is now required by regulation. One test, referred to as the liquidity coverage ratio, is designed to ensure that the banking entity maintains an adequate level of unencumbered high-quality liquid assets equal to the entity's expected net cash outflow for a 30-day time horizon (or, if greater, 25% of its expected total cash outflow) under an acute liquidity stress scenario. The other test, referred to as the net stable funding ratio ("NSFR"), is designed to promote more medium- and long-term funding of the assets and activities of banking entities over a one-year time horizon. These requirements are expected to incent banking entities to increase their holdings of U.S. Treasury securities and other sovereign debt as a component of assets and increase the use of long-term debt as a funding source. However, the federal banking agencies have not proposed rules implementing the Basel III liquidity framework and have not determined to what extent they will apply to U.S. banks that are not large, internationally active banks.

The following are the Corporation’s regulatory capital ratios as of December 31, 2019:

	Corporation	Regulatory Minimum Requirement*
Total risk-based capital to risk-weighted assets	14.29%	8.00%
Tier 1 capital to risk-weighted assets	12.81%	6.00%
Common equity tier 1 capital to risk-weighted assets	12.13%	4.50%
Tier 1 capital to average assets	10.54%	4.00%

*Excludes capital conservation buffer.

Bank Regulation

The Bank is subject to the primary regulatory oversight, supervision and examination of the FDIC and the Indiana DFI. These agencies have the authority to issue cease-and-desist orders if they determine that activities of the Bank regularly represent an unsafe and unsound banking practice or a violation of law. Federal law extensively regulates various aspects of the banking business such as reserve requirements, truth-in-lending and truth-in-savings disclosures, equal credit opportunity, fair credit reporting, trading in securities and other aspects of banking operations. Current federal law also requires banks, among other things, to make deposited funds available within specified time periods.

The Consumer Financial Protection Bureau (“CFPB”), an independent federal agency created under the Dodd-Frank Act, was granted broad rulemaking, supervisory and enforcement powers under various federal consumer financial protection laws, primarily with authority over banks and their affiliates with assets of more than $10 billion. The quarter ended December 31, 2019 is the fourth consecutive quarter that the Bank will have reported assets exceeding $10 billion. As a result, effective as of the beginning of the second quarter of 2020, the Bank and its affiliates will become subject to CFPB supervisory and enforcement authority. See “- Dodd-Frank Wall Street Reform and Consumer Protection Act” and “- Consumer Financial Protection” below for additional information.

Bank Capital Requirements

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, common equity tier 1 capital, 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 and tier 1 capital 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 was effective for the Bank on January 1, 2015. Basel III requires the Bank to maintain minimum amounts and ratio of common equity tier 1 capital to risk weighted assets, as defined in the regulation. Under Basel III, the Bank elected to opt-out of including accumulated other comprehensive income in regulatory capital. As of December 31, 2019, the Bank met all capital adequacy requirements to be considered well capitalized.

FDIC Improvement Act of 1991

The FDICIA requires, among other things, federal bank regulatory authorities to take “prompt corrective action” with respect to banks, which do not meet minimum capital requirements. For these purposes, FDICIA establishes five capital tiers: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. The FDIC has adopted regulations to implement the prompt corrective action provisions of FDICIA.

Basel III revised the "prompt corrective action" regulations by:
- introducing CET1 ratio requirement at each level (other than critically undercapitalized), with the required CET1 ratio being 6.5 percent for well-capitalized status;
- increasing the minimum Tier 1 capital ratio requirement for each category, with the minimum Tier 1 risk-based capital ratio for well-capitalized status being 8.0 percent; and
- eliminating a provision that provides that a bank with a composite supervisory rating of 1 may have a 3.0 percent leverage ratio and still be well-capitalized.

The FDICIA generally prohibits a depository institution from making any capital distributions (including payment of a dividend) or paying any management fee to its parent holding company if the depository institution would thereafter be “undercapitalized.” “Undercapitalized” banks are subject to growth limitations and are required to submit a capital restoration plan. A bank’s compliance with such plan is required to be guaranteed by the bank’s parent holding company. If an “undercapitalized” bank fails to submit an acceptable plan, it is treated as if it is significantly undercapitalized. “Significantly undercapitalized” banks are subject to various requirements and restrictions, including an order by the FDIC to sell sufficient voting stock to become "adequately capitalized", requirements to reduce total assets and cease receipt of deposits from correspondent banks, and restrictions on compensation of executive officers. “Critically undercapitalized” institutions may not, beginning 60 days after becoming “critically undercapitalized,” make any payment of principal or interest on certain subordinated debt, extend credit for a highly leveraged transaction, or enter into any transaction outside the ordinary course of business. In addition, “critically undercapitalized” institutions are subject to appointment of a receiver or conservator.

As of December 31, 2019, the Bank was “well capitalized” based on the “prompt corrective action” ratios described above. It should be noted that a bank’s capital category is determined solely for the purpose of applying the FDIC’s “prompt corrective action” regulations and that the capital category may not constitute an accurate representation of the bank’s overall financial condition or prospects.

Dodd-Frank Wall Street Reform and Consumer Protection Act

On July 21, 2010, the Dodd-Frank Act was signed into law. The Dodd-Frank Act has had a broad impact on the financial services industry, including significant regulatory and compliance changes. Although most of the required regulations of the Dodd-Frank Act have been promulgated and implemented (or are being implemented over time), there are additional regulations yet to be finalized by the authorized federal agencies. The changes resulting from the Dodd-Frank Act have impacted the profitability of the Corporation’s business activities, required changes to certain business practices, and imposed more stringent capital, liquidity and leverage requirements, and, when fully implemented, may further adversely affect our business. Among other things, the Dodd-Frank Act has resulted, and in the future will likely result, in:

- increases to the cost of the Corporation’s operations due to greater regulatory oversight, supervision and examination of banks and bank holding companies, including higher deposit insurance premiums;
- limitations on the Corporation’s ability to raise additional capital through the use of trust preferred securities, as new issuances of these securities may no longer be included as Tier 1 capital;
- reduced flexibility for the Corporation to generate or originate certain revenue-producing assets based on increased regulatory capital standards; and

- limitations on the Corporation’s ability to expand consumer product and service offerings due to stricter consumer protection laws and regulations.
- as the Corporation's assets exceed $10 billion, compliance with the Durbin Amendment will result in a material reduction of interchange fee income paid by merchants when debit cards are used as payment.

The Economic Growth, Regulatory Relief, and Consumer Protection Act (the “Economic Growth Act”), which was enacted in May 2018, repealed or modified several provisions of the Dodd-Frank Act. In particular, the asset threshold at which banks are subject to annual company-run stress tests were increased from $10 billion to $250 billion under the Economic Growth Act. As a result, the Corporation and the Bank will not be subject to the Dodd-Frank Act stress testing requirements.

The Corporation’s management continues to take the steps necessary to minimize the adverse impact of the Dodd-Frank Act on its business, financial condition and results of operation.

Volcker Rule

In December 2013, United States banking regulators adopted final rules implementing the Volcker Rule under the Dodd-Frank Act. The Volcker Rule places certain limitations on the trading activity of insured depository institutions and their affiliates subject to certain exceptions. The restricted trading activity includes purchasing or selling certain types of securities or instruments in order to benefit from short-term price movements or to realize short-term profits. Exceptions to the Volcker Rule include trading in certain U.S. Government or other municipal securities and trading conducted (i) in certain capacities as a broker or other agent, or as a fiduciary on behalf of customers, (ii) to satisfy a debt previously contracted, (iii) pursuant to repurchase and securities lending agreements, and (iv) in risk-mitigating hedging activities. The Volcker Rule also prohibits banking institutions from having an ownership interest in a hedge fund or private equity fund.

A banking entity that engages in proprietary trading (which excludes the exceptions discussed above) or covered fund-related activities or investments, and has total consolidated assets of more than $10 billion for two years, must implement and maintain a compliance program that meets certain minimum requirements and must also maintain certain documentation with respect to covered fund activities, in each case, as described in the Volcker Rule. While the Corporation’s total consolidated assets first exceeded $10 billion during the quarter ended March 31, 2019, the Volcker Rule has not had, and is not expected to have, a material impact on the Corporation or the Bank.

Deposit Insurance

The Bank’s deposit accounts are currently insured by the Deposit Insurance Fund of the FDIC. The insurance benefit generally covers up to a maximum of $250,000 per separately insured depositor. As an FDIC-insured bank, our bank subsidiary is subject to deposit insurance premiums and assessments to maintain the Deposit Insurance Fund. The Bank’s deposit insurance premium assessment rate depends on the asset and supervisory categories to which it is assigned. The FDIC has authority to raise or lower assessment rates on insured banks in order to achieve statutorily required reserve ratios in the Deposit Insurance Fund and to impose special additional assessments.

Deposit insurance assessments are based on average consolidated total assets minus average tangible equity. Under the FDIC's risk-based assessment system, insured institutions with a least $10 billion in assets, such as the Bank, are assessed on the basis of a scoring system that combine the institution's regulatory ratings and certain financial measures. The scoring system assesses risk measures to produce two scores, a performance score and a loss severity score, that will be combined and converted to an initial assessment rate.

The performance score measures an institution's financial performance and its ability to withstand stress. The loss severity score quantifies the relative magnitude of potential losses to the FDIC in the event of an institution's failure. Once the performance and loss severity scores are calculated, these scores will be converted to a total score. An institution with a total score of 30 or less will pay the minimum base assessment rate, and an institution with a total score of 90 or more will pay the maximum initial base assessment rate. For total scores between 30 and 90, initial base assessment rates will rise at an increasing rate as the total score increases.

Dividend Limitations

The Corporation's principal source of funds for dividend payments to shareholders is dividends received from the Bank. Banking regulations limit the maximum amount of dividends that a bank may pay without requesting prior approval of regulatory agencies. Under these regulations, the amount of dividends that may be paid in any calendar year is limited to the bank’s retained net income (as defined) for the current year plus those for the previous two years, subject to the capital requirements described above. As of December 31, 2019, the amount available without prior regulatory approval for 2020 dividends from the Corporation’s subsidiaries (both banking and non-banking) was $189,371,000.

Brokered Deposits

Under FDIC regulations, no FDIC-insured depository institution can accept brokered deposits unless it (i) is well capitalized, or (ii) is adequately capitalized and received a waiver from the FDIC. In addition, these regulations prohibit any depository institution that is not well capitalized from (a) paying an interest rate on deposits in excess of 75 basis points over certain prevailing market rates or (b) offering “pass through” deposit insurance on certain employee benefit plan accounts unless it provides certain notice to affected depositors.

Consumer Financial Protection

The Bank is subject to a number of federal and state consumer protection laws that govern its relationship with customers. These laws include, but are not limited to:

- the Equal Credit Opportunity Act (prohibiting discrimination on the basis of race, religion or other prohibited factors in the extension of credit);
- the Fair Credit Reporting Act (governing the provision of consumer information to credit reporting agencies and the use of consumer information);
- the Truth-In-Lending Act (governing disclosures of credit terms to consumer borrowers);
- the Truth-in-Savings Act (which requires disclosure of deposit terms to consumers);
- the Electronic Funds Transfer Act (governing automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services);
- the Fair Debt Collection Act (governing the manner in which consumer debts may be collected by collection agencies);
- the Right to Financial Privacy Act (which imposes a duty to maintain the confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records);
- the Home Mortgage Disclosure Act and Regulation C, requiring financial institutions to provide certain information about home mortgage and refinanced loans; and
- the respective state-law counterparts to the above laws, as applicable, as well as state usury laws and laws regarding unfair and deceptive acts and practices.

Violations of applicable consumer protection laws can result in significant potential liability from litigation brought by customers, including actual damages, restitution and attorneys' fees. Federal bank regulators, state attorneys general and state and local consumer protection agencies may also seek to enforce consumer protection requirements and obtain these and other remedies, including regulatory sanctions, customer rescission rights, action by the state and local attorneys general in each jurisdiction in which we operate and civil money penalties. Failure to comply with consumer protection requirements may also result in the Corporation's failure to obtain any required bank regulatory approval for merger or acquisition transactions that it may wish to pursue or prohibition from engaging in such transactions even if approval is not required.

In June 2019, the Bank entered into a Settlement Agreement and Agreed Order with the United States Department of Justice ("DOJ") to address issues raised relative to the Equal Credit Opportunity Act and the Fair Housing Act within the Indianapolis-Marion County, Indiana market. While the DOJ investigation focused on that market during the period between January 1, 2011 and December 31, 2016, the Bank first physically entered the Indianapolis-Marion County market in February 2016, through a newly-constructed branch. There was no actual finding or adjudication with respect to any matter alleged by the DOJ, and the Bank has not admitted any of the allegations or to any liability. The Order was approved by the United States District Court for the Southern District of Indiana in August 2019.

The CFPB, an independent federal agency created under the Dodd-Frank Act, was granted broad rulemaking, supervisory and enforcement powers under various federal consumer financial protection laws, primarily with authority over banks and their affiliates with assets of more than $10 billion. As stated previously, with its assets having recently exceeded $10 billion for four consecutive quarters, the Bank and its affiliates will become subject to CFPB supervisory and enforcement authority effective as of the beginning of the second quarter of 2020.

The consumer protection provisions of the Dodd-Frank Act and the examination, supervision and enforcement of those laws and implementing regulations by the CFPB have created a more complex environment for consumer finance regulation. The CFPB has significant authority to implement and enforce federal consumer finance laws, including the Truth in Lending Act, the Equal Credit Opportunity Act and new requirements for financial services products provided for in the Dodd-Frank Act, as well as the authority to identify and prohibit unfair, deceptive or abusive acts and practices. The review of products and practices to prevent such acts and practices is a continuing focus of the CFPB, and of banking regulators more broadly. The ultimate impact of this heightened scrutiny is uncertain but could result in changes to pricing, practices, products and procedures. It could also result in increased costs related to regulatory oversight, supervision and examination, additional remediation efforts and possible penalties. In addition, the Dodd-Frank Act provides the CFPB with broad supervisory, examination and enforcement authority over various consumer financial products and services, including the ability to require reimbursements and other payments to customers for alleged legal violations and to impose significant penalties, as well as injunctive relief that prohibits lenders from engaging in allegedly unlawful practices. The CFPB also has the authority to obtain cease and desist orders providing for affirmative relief or monetary penalties. The Dodd-Frank Act does not prevent states from adopting stricter consumer protection standards. State regulation of financial products and potential enforcement actions could also adversely affect our business, financial condition or results of operations.

Community Reinvestment Act

The Community Reinvestment Act of 1977 (the "CRA") requires depository institutions to assist in meeting the credit needs of their market areas consistent with safe and sound banking practice. Under the CRA, each depository institution is required to help meet the credit needs of its market areas by, among other things, providing credit to low- and moderate-income individuals and communities. These factors are also considered in evaluating mergers, acquisitions and applications to open a branch or facility. The applicable federal regulators regularly conduct CRA examinations to assess the performance of financial institutions and assign one of four ratings to the institution's records of meeting the credit needs of its community. During its last examination, a rating of "satisfactory" was received by the Bank.

Financial Privacy

The federal banking regulators adopted rules that limit the ability of banks and other financial institutions to disclose non-public information about consumers to nonaffiliated third parties. These limitations require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to a nonaffiliated third party. These regulations affect how consumer information is transmitted through diversified financial companies and conveyed to outside vendors.

The Bank is also subject to regulatory guidelines establishing standards for safeguarding customer information. These guidelines describe the federal banking agencies' expectations for the creation, implementation and maintenance of an information security program, which would include administrative, technical and physical safeguards appropriate to the size and complexity of the institution and the nature and scope of its activities. The standards set forth in the guidelines are intended to ensure the security and confidentiality of customer records and information, protect against any anticipated threats or hazards to the security or integrity of such records and protect against unauthorized access to or use of such records or information that could result in substantial harm or inconvenience to any customer.

Anti-Money Laundering and the USA Patriot Act

A major focus of governmental policy on financial institutions in recent years has been aimed at combating money laundering and terrorist financing. The USA Patriot Act of 2001 (the "USA Patriot Act") substantially broadened the scope of United States anti-money laundering laws and regulations by imposing significant new compliance and due diligence obligations on financial institutions, creating new crimes and penalties and expanding the extra-territorial jurisdiction of the United States.

The Bank Secrecy Act (the "BSA") requires financial institutions to develop policies, procedures, and practices to prevent and deter money laundering, and mandates that every bank have a written, board-approved program that is reasonably designed to assure and monitor compliance with the BSA. In addition, banks are required to adopt a customer identification program as part of its BSA compliance program, and are required to file Suspicious Activity Reports when they detect certain known or suspected violations of federal law or suspicious transactions related to a money laundering activity or a violation of the BSA. The Bank is also required to (1) identify and verify, subject to certain exceptions, the identity of the beneficial owners of all legal entity customers at the time a new account is opened, and (2) include, in its anti-money laundering program, risk-based procedures for conducting ongoing customer due diligence, which are to include procedures that: (a) assist in understanding the nature and purpose of customer relationships for the purpose of developing a customer risk profile, and (b) require ongoing monitoring to identify and report suspicious transactions and, on a risk basis, to maintain and update customer information.

Failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing, or to comply with all of the relevant laws or regulations, could have serious legal and reputational consequences for the institution, including causing applicable bank regulatory authorities not to approve merger or acquisition transactions when regulatory approval is required or to prohibit such transactions even if approval is not required.

Office of Foreign Assets Control Regulation

The United States has imposed economic sanctions that affect transactions with designated foreign countries, nationals and others which are administered by the U.S. Treasury Department Office of Foreign Assets Control. Failure to comply with these sanctions could have serious legal and reputational consequences, including causing applicable bank regulatory authorities not to approve merger or acquisition transactions when regulatory approval is required or to prohibit such transactions even if approval is not required.

The Sarbanes-Oxley Act

The Sarbanes-Oxley Act, which became law on July 30, 2002, added new legal requirements for public companies affecting corporate governance, accounting and corporate reporting. The Sarbanes-Oxley Act provides for, among other things:

- a prohibition on personal loans made or arranged by the issuer to its directors and executive officers (except for loans made by a bank subject to Regulation O);
- independence requirements for audit committee members;
- independence requirements for company auditors;
- certification of financial statements on Forms 10-K and 10-Q reports by the chief executive officer and the chief financial officer;
- the forfeiture by the chief executive officer and chief financial officer of bonuses or other incentive-based compensation and profits from the sale of an issuer's securities by such officers in the twelve-month period following initial publication of any financial statements that later require restatement due to corporate misconduct;
- disclosure of off-balance sheet transactions;
- two-business day filing requirements for insiders filing Form 4s;
- disclosure of a code of ethics for financial officers and filing a Form 8-K for a change in or waiver of such code;
- the reporting of securities violations "up the ladder" by both in-house and outside attorneys;
- restrictions on the use of non-GAAP financial measures in press releases and SEC filings;
- the formation of a public accounting oversight board; and
- various increased criminal penalties for violations of securities laws.

The SEC was delegated the task of enacting rules to implement various provisions. In addition, each of the national stock exchanges developed new corporate governance rules, including rules strengthening director independence requirements for boards, the adoption of corporate governance codes and charters for the nominating, corporate governance and audit committees.

Additional Matters

The Corporation and the Bank are subject to the Federal Reserve Act, which restricts financial transactions between banks and affiliated companies. The statute limits credit transactions between banks, affiliated companies and its executive officers and its affiliates. The statute prescribes terms and conditions for bank affiliate transactions deemed to be consistent with safe and sound banking practices. It also restricts the types of collateral security permitted in connection with the bank's extension of credit to an affiliate. Additionally, all transactions with an affiliate must be on terms substantially the same or at least as favorable to the institution as those prevailing at the time for comparable transactions with non-affiliated parties.

The earnings of financial institutions are also affected by general economic conditions and prevailing interest rates, both domestic and foreign, and by the monetary and fiscal policies of the United States Government and its various agencies, particularly the Federal Reserve. The Federal Reserve regulates the supply of credit in order to influence general economic conditions, primarily through open market operations in United States Government obligations, varying the discount rate on financial institution borrowings, varying reserve requirements against financial institution deposits, and restricting certain borrowings by financial institutions and their subsidiaries. The monetary policies of the Federal Reserve have had a significant effect on the operating results of the Bank in the past and are expected to continue to do so in the future.

Additional legislation and administrative actions affecting the banking industry may be considered by the United States Congress, state legislatures and various regulatory agencies, including those referred to above. It cannot be predicted with certainty whether such legislation or administrative action will be enacted or the extent to which the banking industry, the Corporation or the Bank would be affected.

PART I: ITEM 1. BUSINESS

STATISTICAL DATA

The following tables set forth statistical data on the Corporation and its subsidiaries.

DISTRIBUTION OF ASSETS, LIABILITIES AND STOCKHOLDERS' EQUITY; INTEREST RATES AND INTEREST DIFFERENTIAL

The daily average balance sheet amounts, the related interest income or interest expense, and average rates earned or paid are presented in the following table:

	Average Balance	Interest Income / Expense	Average Rate	Average Balance	Interest Income / Expense	Average Rate	Average Balance	Interest Income / Expense	Average Rate
(Dollars in Thousands)		**2019**			**2018**			**2017**	
Assets:									
Interest-bearing deposits	$ 211,683	$ 4,225	2.00%	$ 110,232	$ 2,241	2.03%	$ 75,417	$ 736	0.98%
Federal Reserve and Federal Home Loan Bank stock	25,645	1,370	5.34	24,538	1,234	5.03	20,921	894	4.27
Investment Securities: (1)									
Taxable	1,101,247	27,815	2.53	841,203	21,597	2.57	726,004	17,489	2.41
Tax-exempt (2)	987,006	40,070	4.06	762,623	32,290	4.23	632,076	32,891	5.20
Total investment securities	2,088,253	67,885	3.25	1,603,826	53,887	3.36	1,358,080	50,380	3.71
Loans held for sale	18,402	780	4.24	11,425	540	4.73	7,707	462	5.99
Loans: (3)									
Commercial	5,631,146	306,139	5.44	5,143,576	274,302	5.33	4,267,651	204,771	4.80
Real estate mortgage	811,188	37,782	4.66	733,709	33,549	4.57	679,284	30,267	4.46
Installment	701,459	38,071	5.43	640,310	34,110	5.33	573,100	28,204	4.92
Tax-exempt (2)	527,995	22,238	4.21	468,751	18,813	4.01	353,542	16,452	4.65
Total loans	7,690,190	405,010	5.27	6,997,771	361,314	5.16	5,881,284	280,156	4.76
Total earning assets	10,015,771	478,490	4.78%	8,736,367	418,676	4.79%	7,335,702	332,166	4.53%
Net unrealized gain (loss) on securities available for sale	17,676			(14,790)			4,360		
Allowance for loan losses	(81,000)			(77,444)			(70,380)		
Cash and cash equivalents	142,857			131,925			142,503		
Premises and equipment	99,343			94,567			97,446		
Other assets	896,673			818,432			686,598		
Total Assets	**$ 11,091,320**			**$ 9,689,057**			**$ 8,196,229**		
Liabilities:									
Interest-bearing deposits:									
Interest-bearing deposit accounts	$ 3,070,861	$ 33,921	1.10%	$ 2,319,081	$ 17,577	0.76%	$ 1,730,272	$ 5,817	0.34%
Money market deposit accounts	1,300,064	14,111	1.09	1,097,762	6,721	0.61	938,959	2,788	0.30
Savings deposits	1,242,468	9,464	0.76	1,065,031	5,230	0.49	844,825	734	0.09
Certificates and other time deposits	1,673,292	34,089	2.04	1,514,271	22,014	1.45	1,339,866	14,467	1.08
Total interest-bearing deposits	7,286,685	91,585	1.26	5,996,145	51,542	0.86	4,853,922	23,806	0.49
Borrowings	644,729	17,160	2.66	718,061	17,545	2.44	664,045	13,806	2.08
Total interest-bearing liabilities	7,931,414	108,745	1.37	6,714,206	69,087	1.03	5,517,967	37,612	0.68
Noninterest-bearing deposits	1,495,949			1,573,337			1,514,829		
Other liabilities	94,342			57,653			52,909		
Total Liabilities	**9,521,705**			**8,345,196**			**7,085,705**		
Stockholders' Equity	1,569,615			1,343,861			1,110,524		
Total Liabilities and Stockholders' Equity	**$ 11,091,320**	**108,745**		**$ 9,689,057**	**69,087**		**$ 8,196,229**	**37,612**	
Net Interest Income (FTE)		$ 369,745			$ 349,589			$ 294,554	
Net Interest Spread (FTE) (4)			**3.41%**			**3.76%**			**3.85%**
Net Interest Margin (FTE):									
Interest Income (FTE) / Average Earning Assets			**4.78%**			**4.79%**			**4.53%**
Interest Expense / Average Earning Assets			**1.09%**			**0.79%**			**0.51%**
Net Interest Margin (FTE) (5)			**3.69%**			**4.00%**			**4.02%**

(1) Average balance of securities is computed based on the average of the historical amortized cost balances without the effects of the fair value adjustment.

(2) Tax-exempt securities and loans are presented on a fully taxable equivalent basis, using a marginal tax rate of 21 percent for both 2019 and 2018, while using 35 percent for 2017. These totals equal $13,085, $10,732 and $17,270, respectively.

(3) Non-accruing 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.

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ANALYSIS OF CHANGES IN NET INTEREST INCOME

The following table presents net interest income components on a tax-equivalent basis and reflects changes between periods attributable to movement in either the average balance or average interest rate for both earning assets and interest-bearing liabilities. The volume differences were computed as the difference in volume between the current and prior year multiplied by the interest rate from the prior year. The interest rate changes were computed as the difference in rate between the current and prior year multiplied by the volume from the prior year. Volume/rate variances have been allocated on the basis of the absolute relationship between volume variances and rate variances.

	2019 Compared to 2018 Increase (Decrease) Due To			2018 Compared to 2017 Increase (Decrease) Due To			2017 Compared to 2016 Increase (Decrease) Due To		
(Dollars in Thousands, Fully Taxable Equivalent Basis)	**Volume**	**Rate**	**Total**	**Volume**	**Rate**	**Total**	**Volume**	**Rate**	**Total**
Interest Income:									
Interest-bearing deposits	$ 2,026	$ (42)	$ 1,984	$ 450	$ 1,055	$ 1,505	$ 31	$ 355	$ 386
Federal Reserve and Federal Home Loan Bank stock	57	79	136	168	172	340	(145)	(59)	(204)
Investment securities	15,799	(1,801)	13,998	8,551	(5,044)	3,507	3,133	2,183	5,316
Loans held for sale	301	(61)	240	190	(112)	78	252	(162)	90
Loans	35,993	7,463	43,456	56,084	24,996	81,080	50,333	9,392	59,725
Totals	54,176	5,638	59,814	65,443	21,067	86,510	53,604	11,709	65,313
Interest Expense:									
Interest-bearing deposit accounts	6,779	9,565	16,344	2,509	9,251	11,760	640	2,598	3,238
Money market deposit accounts	1,423	5,967	7,390	540	3,393	3,933	258	825	1,083
Savings deposits	983	3,251	4,234	239	4,257	4,496	98	18	116
Certificates and other time deposits	2,504	9,571	12,075	2,061	5,486	7,547	1,929	1,526	3,455
Borrowings	(1,877)	1,492	(385)	1,185	2,554	3,739	3,160	(279)	2,881
Totals	9,812	29,846	39,658	6,534	24,941	31,475	6,085	4,688	10,773
Change in net interest income (fully taxable equivalent basis)	$ 44,364	$ (24,208)	20,156	$ 58,909	$ (3,874)	55,035	$ 47,519	$ 7,021	54,540
Tax equivalent adjustment using marginal rate of 21% for both 2019 and 2018 and 35% for 2017			(2,353)			6,538			(3,729)
Change in net interest income			$ 17,803			$ 61,573			$ 50,811

INVESTMENT SECURITIES

Management evaluates securities for other-than-temporary-impairment ("OTTI") at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation.

In determining OTTI, management considers many factors, including: (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions, and (4) whether the Corporation has the intent to sell the debt security or more likely than not, will be required to sell the debt security before its anticipated recovery. The assessment of whether an other-than-temporary decline exists involves a high degree of subjectivity and judgment and is based on the information available to management at a point in time.

When OTTI occurs, the amount of OTTI recognized in the income statement depends on whether the Corporation intends to sell the security or it is more likely than not that the Corporation will be required to sell the security before recovery of its amortized cost basis, less any recognized credit loss. If the intent is to sell, or it is more likely than not that the Corporation will be required to sell the security before recovery of its amortized cost basis, less any recognized credit loss, the OTTI shall be recognized in earnings equal to the entire difference between the investment's amortized cost basis, less any recognized credit loss, and its fair value at the balance sheet date. If the intent is not to sell the security and it is not more likely than not that the Corporation will be required to sell the security before the recovery of its amortized cost basis less any recognized credit loss, the OTTI has been separated into the amount representing the credit loss and the amount related to all other factors. The amount of the total OTTI related to the credit loss is determined based on the present value of cash flows expected to be collected and is recognized in earnings. The amount of the total OTTI related to other factors is recognized in other comprehensive income, net of applicable income taxes. The previous amortized cost basis less the OTTI recognized in earnings becomes the new amortized cost basis of the investment.

The Corporation's management has evaluated all securities with unrealized losses for OTTI as of December 31, 2019 and concluded no OTTI existed in 2019.

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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 I and Level II 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 loss 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 were determined using a discounted cash flow model that incorporated market estimates of interest rates and volatility in markets that have not been active.

The amortized cost, gross unrealized gains, gross unrealized losses and approximate market value of the investment securities at the dates indicated were:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale at December 31, 2019				
U.S. Government-sponsored agency securities	$ 38,529	$ 346	$ —	$ 38,875
State and municipal	859,511	41,092	807	899,796
U.S. Government-sponsored mortgage-backed securities	842,349	10,378	1,404	851,323
Corporate obligations	31	—	—	31
Total available for sale	1,740,420	51,816	2,211	1,790,025
Held to maturity at December 31, 2019				
U.S. Government-sponsored agency securities	15,619	1	37	15,583
State and municipal	354,115	15,151	107	369,159
U.S. Government-sponsored mortgage-backed securities	434,804	6,921	401	441,324
Foreign investment	1,500	—	—	1,500
Total held to maturity	806,038	22,073	545	827,566
Total Investment Securities	$ 2,546,458	$ 73,889	$ 2,756	$ 2,617,591

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale at December 31, 2018				
U.S. Government-sponsored agency securities	$ 13,493	$ 92	$ 3	$ 13,582
State and municipal	605,994	5,995	5,854	606,135
U.S. Government-sponsored mortgage-backed securities	530,209	634	8,396	522,447
Corporate obligations	31	—	—	31
Total available for sale	1,149,727	6,721	14,253	1,142,195
Held to maturity at December 31, 2018				
U.S. Government-sponsored agency securities	22,618	—	545	22,073
State and municipal	197,909	2,858	872	199,895
U.S. Government-sponsored mortgage-backed securities	268,860	713	3,323	266,250
Foreign investment	1,000	—	1	999
Total held to maturity	490,387	3,571	4,741	489,217
Total Investment Securities	$ 1,640,114	$ 10,292	$ 18,994	$ 1,631,412

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale at December 31, 2017				
State and municipal	$ 510,852	$ 16,932	$ 1,091	$ 526,693
U.S. Government-sponsored mortgage-backed securities	473,325	964	3,423	470,866
Corporate obligations	31	—	—	31
Equity securities	2,357	—	—	2,357
Total available for sale	986,565	17,896	4,514	999,947
Held to maturity at December 31, 2017				
U.S. Government-sponsored agency securities	22,618	—	435	22,183
State and municipal	235,594	6,295	244	241,645
U.S. Government-sponsored mortgage-backed securities	301,443	3,341	1,404	303,380
Foreign investment	1,000	—	—	1,000
Total held to maturity	560,655	9,636	2,083	568,208
Total Investment Securities	$ 1,547,220	$ 27,532	$ 6,597	$ 1,568,155

The cost and yield for Federal Home Loan Bank stock is included in the table below.

	2019		2018		2017	
(Dollars in Thousands)	Cost	Yield	Cost	Yield	Cost	Yield
Federal Home Loan Bank stock	$ 28,736	4.8%	$ 24,588	5.0%	$ 23,825	3.8%
Total	$ 28,736	4.8%	$ 24,588	5.0%	$ 23,825	3.8%

Federal Home Loan Bank stock has been reviewed for impairment and the analysis reflected no impairment. The Corporation's Federal Home Loan Bank stock is primarily in the Federal Home Loan Bank of Indianapolis and it continued to produce sufficient financial results to pay dividends.

There were no issuers included in the investment security portfolio at December 31, 2019, 2018 or 2017 where the aggregate carrying value of any one issuer exceeded 10 percent of the Corporation's stockholders' equity at those dates. The term "issuer" excludes the U.S. Government and its sponsored agencies and corporations.

The maturity distribution and average yields for the securities portfolio at December 31, 2019 were:

	Within 1 Year		1-5 Years		5-10 Years	
(Dollars in Thousands)	Amount	Yield (1)	Amount	Yield (1)	Amount	Yield (1)
Securities available for sale December 31, 2019						
U.S. Government-sponsored agency securities	$ 375	2.3%	$ 1,147	2.6%	$ 37,353	2.7%
State and municipal	761	5.4%	3,994	4.9%	39,567	4.2%
	$ 1,136	4.4%	$ 5,141	4.4%	$ 76,920	3.5%

	Due After Ten Years		U.S. Government-Sponsored Mortgage - Backed Securities		Total	
	Amount	Yield (1)	Amount	Yield (1)	Amount	Yield (1)
U.S. Government-sponsored agency securities	$ —	—%	$ —	—%	$ 38,875	2.7%
State and municipal	855,474	3.9%	—	—%	899,796	4.0%
U.S. Government-sponsored mortgage-backed securities	—	—%	851,323	2.7%	851,323	2.7%
Corporate obligations	31	—%	—	—%	31	—%
	$ 855,505	3.9%	$ 851,323	2.7%	$ 1,790,025	3.3%

	Within 1 Year		1-5 Years		5-10 Years	
(Dollars in Thousands)	Amount	Yield (1)	Amount	Yield (1)	Amount	Yield (1)
Securities held to maturity at December 31, 2019						
U.S. Government-sponsored agency securities	$ —	—%	$ 15,619	1.6%	$ —	—%
State and municipal	9,920	4.9%	28,078	4.3%	84,153	4.2%
U.S. Government-sponsored mortgage-backed securities	—	—%	—	—%	—	—%
Foreign investment	—	—%	1,500	2.9%	—	—%
	$ 9,920	4.9%	$ 45,197	3.3%	$ 84,153	4.2%

	Due After Ten Years		U.S. Government-Sponsored Mortgage - Backed Securities		Total	
	Amount	Yield (1)	Amount	Yield (1)	Amount	Yield (1)
U.S. Government-sponsored agency securities	$ —	—%	$ —	—%	$ 15,619	1.6%
State and municipal	231,964	4.0%	—	—%	354,115	4.1%
U.S. Government-sponsored mortgage-backed securities	—	—%	434,804	2.8%	434,804	2.8%
Foreign investment	—	—%	—	—%	1,500	2.9%
	$ 231,964	4.0%	$ 434,804	2.8%	$ 806,038	3.3%

(1) Interest yields are presented on a fully taxable equivalent basis using a 21 percent tax rate.

The following tables show the Corporation's gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2019 and 2018:

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Temporarily Impaired Available for Sale Securities at December 31, 2019						
State and municipal	$ 76,273	$ 807	$ —	$ —	$ 76,273	$ 807
U.S. Government-sponsored mortgage-backed securities	127,673	1,326	20,796	78	148,469	1,404
Total Temporarily Impaired Available for Sale Securities	203,946	2,133	20,796	78	224,742	2,211
Temporarily Impaired Held to Maturity Securities at December 31, 2019						
U.S. Government-sponsored agency securities	3,016	4	12,467	33	15,483	37
State and municipal	22,947	107	—	—	22,947	107
U.S. Government-sponsored mortgage-backed securities	124,253	364	7,991	37	132,244	401
Total Temporarily Impaired Held to Maturity Securities	150,216	475	20,458	70	170,674	545
Total Temporarily Impaired Investment Securities	$ 354,162	$ 2,608	$ 41,254	$ 148	$ 395,416	$ 2,756

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Temporarily Impaired Available for Sale Securities at December 31, 2018						
U.S. Government-sponsored agency securities	$ 1,490	$ 3	$ —	$ —	$ 1,490	$ 3
State and municipal	234,431	3,958	38,028	1,896	272,459	5,854
U.S. Government-sponsored mortgage-backed securities	196,601	2,400	217,121	5,996	413,722	8,396
Total Temporarily Impaired Available for Sale Securities	432,522	6,361	255,149	7,892	687,671	14,253
Temporarily Impaired Held to Maturity Securities at December 31, 2018						
U.S. Government-sponsored agency securities	—	—	22,073	545	22,073	545
State and municipal	14,952	369	16,786	503	31,738	872
U.S. Government-sponsored mortgage-backed securities	102,828	876	87,268	2,447	190,096	3,323
Foreign investment	—	—	999	1	999	1
Total Temporarily Impaired Held to Maturity Securities	117,780	1,245	127,126	3,496	244,906	4,741
Total Temporarily Impaired Investment Securities	$ 550,302	$ 7,606	$ 382,275	$ 11,388	$ 932,577	$ 18,994

LOAN PORTFOLIO

Loans are generated from customers primarily in central and northern Indiana, northeast Illinois, central Ohio, and southeast Michigan and are typically secured by specific items of collateral, including real property, consumer assets, and business assets. The following table shows the composition of the Corporation's loan portfolio by collateral classification, including purchased credit impaired loans, for the years indicated:

	2019		2018		2017		2016		2015	
(Dollars in Thousands)	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
Loans at December 31:										
Commercial and industrial loans	$ 2,109,879	24.9%	$ 1,726,664	23.9%	$ 1,493,493	22.1%	$ 1,194,646	23.2%	$ 1,057,075	22.5%
Agricultural production financing and other loans to farmers	93,861	1.1	92,404	1.3	121,757	1.8	79,689	1.6	97,711	2.1
Real estate loans:										
Construction	787,568	9.3	545,729	7.5	612,219	9.1	418,703	8.1	366,704	7.8
Commercial and farmland	3,052,698	36.1	2,832,102	39.2	2,562,691	38.0	1,953,062	38.1	1,802,921	38.5
Residential	1,143,217	13.5	966,421	13.4	962,765	14.3	739,169	14.4	786,105	16.7
Home equity	588,984	7.0	528,157	7.3	514,021	7.6	418,525	8.1	348,613	7.4
Individuals' loans for household and other personal expenditures	135,989	1.6	99,788	1.4	86,935	1.3	77,479	1.5	74,717	1.6
Public finance and other commercial loans	547,114	6.5	433,202	6.0	397,318	5.8	258,372	5.0	159,976	3.4
Loans	8,459,310	100.0%	7,224,467	100.0%	6,751,199	100.0%	5,139,645	100.0%	4,693,822	100.0%
Allowance for loan losses	(80,284)		(80,552)		(75,032)		(66,037)		(62,453)	
Net Loans	$ 8,379,026		$ 7,143,915		$ 6,676,167		$ 5,073,608		$ 4,631,369	

Public finance and other commercial loans is primarily comprised of loans secured by states and political subdivisions in the United States.

PART I: ITEM 1. BUSINESS

The following table details gross loan balances and the associated fair value discount by acquisition.

(Dollars in Thousands)

Acquired Institution	Date	Gross Loan Balance	Fair Value Discount
MBT	September 1, 2019	$ 751,353	$ 18,775
IAB	July 14, 2017	$ 749,713	$ 23,737
Arlington Bank	May 19, 2017	$ 238,867	$ 6,561
Ameriana	December 31, 2015	$ 330,918	$ 13,989
C Financial	April 17, 2015	$ 113,221	$ 2,596

At December 31, 2019 and 2018, the remaining fair value discount on acquired loans was $36,622,000 and $30,054,000, respectively.

LOAN MATURITIES

Presented in the table below are the maturities of loans (excluding residential real estate, home equity, individuals' loans for household and other personal expenditures and lease financing) outstanding as of December 31, 2019, by collateral classification. Also presented are the amounts due after one year, classified according to the sensitivity to changes in interest rates. The tables classify variable rate loans pursuant to the contractual repricing dates of the underlying loans, while fixed rate loans are classified by contractual maturity date.

(Dollars in Thousands)	Maturing Within 1 Year	Maturing 1-5 Years	Maturing Over 5 Years	Total
Commercial and industrial loans	$ 1,616,486	$ 312,626	$ 180,767	$ 2,109,879
Agriculture production financing and other loans to farmers	79,335	13,418	1,108	93,861
Real estate loans:				
Construction	704,976	42,779	39,813	787,568
Commercial and farmland	1,558,375	1,195,764	298,559	3,052,698
Public finance and other commercial loans	20,288	57,411	468,644	546,343
Total	$ 3,979,460	$ 1,621,998	$ 988,891	$ 6,590,349

(Dollars in Thousands)	Maturing 1-5 Years	Maturing Over 5 Years
Loans maturing after one year with:		
Fixed rate	$ 1,104,429	$ 895,048
Variable rate	517,569	93,843
Total	$ 1,621,998	$ 988,891

NON-PERFORMING ASSETS

The table below summarizes non-performing assets and loans deemed impaired in accordance with ASC 310-10 for the years indicated:

(Dollars in Thousands)	December 31, 2019	December 31, 2018	December 31, 2017	December 31, 2016	December 31, 2015
Non-performing assets:					
Non-accrual loans	$ 15,949	$ 26,148	$ 28,724	$ 29,998	$ 31,389
Renegotiated loans	841	1,103	1,013	4,747	1,923
Non-performing loans (NPL)	16,790	27,251	29,737	34,745	33,312
Other real estate owned	7,527	2,179	10,373	8,966	17,257
Non-performing assets (NPA)	24,317	29,430	40,110	43,711	50,569
90 days or more delinquent and still accruing	69	1,855	924	112	907
NPAs & 90 days or more delinquent	$ 24,386	$ 31,285	$ 41,034	$ 43,823	$ 51,476
Impaired loans	$ 11,709	$ 22,025	$ 23,211	$ 26,015	$ 23,355

Loans are reclassified to a non-accruing status when, in management's judgment, the collateral value and financial condition of the borrower do not justify accruing interest. Interest previously recorded, but not deemed collectible, is reversed and charged against current income. Payments subsequently received on non-accrual loans are applied to principal.

At December 31, 2019, non-accrual loans totaled $15,949,000, a decrease of $10,199,000 from December 31, 2018. At December 31, 2019, 2018, 2017, 2016, and 2015, non-accrual loans include assets acquired during the respective periods of $3,697,000, $0, $4,822,000, $0, and $2,229,000.

Other real estate owned ("OREO") at December 31, 2019 increased $5,348,000 from the December 31, 2018 balance of $2,179,000. The increase in OREO was primarily the result of a single commercial property with a carrying value of $5.9 million. At December 31 2019, OREO included assets acquired from MBT during the period of $136,000. At December 31, 2018, 2017 and 2016, OREO did not include any assets acquired during the respective periods. At December 31, 2015, OREO included assets acquired during the period of $5,719,000.

PART I: ITEM 1. BUSINESS

Renegotiated loans are loans for which concessions are granted to the borrower due to deterioration in the financial condition of the borrower, resulting in the inability of the borrower to meet the original contractual terms of the loans. These concessions may include interest rate reductions, principal forgiveness, extensions of maturity date or other actions intended to minimize losses. Certain loans restructured may be excluded from restructured loan disclosures in years subsequent to the restructuring if the loans are in compliance with their modified terms. A non-accrual loan that is restructured may remain non-accrual for a period of approximately six months until the borrower can demonstrate their ability to meet the restructured terms. A borrower's performance prior to the restructuring, as well as after, will be considered in assessing whether the borrower can meet the new terms resulting in the loan being returned to accruing status in a shorter or longer period of time than the standard six months. If the borrower’s performance under the modified terms is not reasonably assured, the loan will remain non-accrual.

For the year ended December 31, 2019, interest income of $277,000 was recognized on the non-accruing and renegotiated loans listed in the table above, whereas interest income of $749,000 would have been recognized under their loan terms.

Impaired loans, which include loans accounted for under ASC 310-30, totaled $11,709,000 at December 31, 2019. A loan is deemed impaired under ASC 310 when, based on current information or events, it is probable that all amounts due of principal and interest according to the contractual terms of the loan agreement will not be collected. A specific allowance of $689,000, on a subset of impaired loans totaling $4,357,000, was included in the Corporation’s December 31, 2019 allowance for loan losses. Loss reserves for acquired loans totaled $124,000, and were included in the aforementioned specific allowance as a result of subsequent deterioration.

An allowable method for determining impairment is estimating the fair value of collateral on collateral dependent loans. This method requires obtaining a current independent appraisal of the collateral and applying a discount factor to the value. The fair value of real estate is generally based on appraisals by qualified licensed appraisers. The appraisers 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 discounted 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.

In addition to the impaired loans discussed above, management also identified commercial loans totaling $330,409,000 as of December 31, 2019 that were deemed to be risk graded criticized, but not impaired. Comparatively, commercial loans risk graded criticized but not deemed impaired at December 31, 2018 totaled $259,585,000. These loans are not included in the table above, or the impaired loan table in the footnotes to the consolidated financial statements. A loan risk graded criticized is a loan in which there are concerns regarding the borrower’s ability to comply with the repayment terms and would include loans graded special mention or worse.

See additional information regarding loan credit quality in NOTE 5. LOANS AND ALLOWANCE of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

SUMMARY OF LOAN LOSS EXPERIENCE

The following table summarizes the loan loss experience, by collateral segment, for the years indicated:

(Dollars in Thousands)	2019	2018	2017	2016	2015
Allowance for loan losses:					
Balances, January 1	$ 80,552	$ 75,032	$ 66,037	$ 62,453	$ 63,964
Charge-offs:					
Commercial (1)	1,732	2,316	1,383	2,464	2,356
Commercial real estate (2)	3,675	2,741	1,737	2,408	1,437
Consumer	569	749	593	567	620
Residential	645	2,177	1,315	1,990	3,859
Total Charge-offs	6,621	7,983	5,028	7,429	8,272
Recoveries:					
Commercial (3)	1,244	2,456	1,590	1,806	1,911
Commercial real estate (4)	1,289	2,525	2,260	2,090	2,545
Consumer	401	302	324	369	352
Residential	619	993	706	1,091	1,536
Total Recoveries	3,553	6,276	4,880	5,356	6,344
Net Charge-offs	3,068	1,707	148	2,073	1,928
Provisions for loan losses	2,800	7,227	9,143	5,657	417
Balance at December 31	$ 80,284	$ 80,552	$ 75,032	$ 66,037	$ 62,453
Ratio of net charge-offs during the period to average loans outstanding during the period	0.04%	0.02%	0.00%	0.04%	0.05%

Details of the Allowance for Loan Losses and non-performing loans are discussed within the “Loan Quality” and “Provision and Allowance for Loan Losses” sections of Management’s Discussion and Analysis of Financial Condition and Results of Operations included as Item 7 of this Annual Report on Form 10-K.

(1) Category includes the charge-offs for commercial and industrial, agricultural production financing and other loans to farmers and other commercial loans.

(2) Category includes the charge-offs for construction, commercial and farmland.

(3) Category includes the recoveries for commercial and industrial, agricultural production financing and other loans to farmers and other commercial loans.

(4) Category includes the recoveries for construction, commercial and farmland.

ALLOCATION OF THE ALLOWANCE FOR LOAN LOSSES

Presented below is an analysis of the composition of the allowance for loan losses and percent of loans in each category to total loans, by collateral segment, as of the years indicated.

	2019		2018		2017		2016		2015	
(Dollars in Thousands)	**Amount**	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**
Balance at December 31:										
Commercial	$ 32,902	32.5%	$ 32,657	31.1%	$ 30,420	29.8%	$ 27,698	29.8%	$ 26,480	28.0%
Commercial real estate	28,778	45.4	29,609	46.8	27,343	47.0	23,661	46.2	22,145	46.2
Consumer	4,035	1.6	3,964	1.4	3,732	1.3	2,923	1.5	2,689	1.6
Residential	14,569	20.5	14,322	20.7	13,537	21.9	11,755	22.5	11,139	24.2
Totals	$ 80,284	100.0%	$ 80,552	100.0%	$ 75,032	100.0%	$ 66,037	100.0%	$ 62,453	100.0%

Loan concentrations are considered to exist when there are amounts loaned to multiple borrowers engaged in similar activities, which would cause them to be similarly impacted by economic or other conditions. At December 31, 2019, two concentrations of commercial loans within a single industry (as segregated by North American Industry Classification System “NAICS code”) were in excess of 10 percent of total loans: Lessors of Residential Buildings and Dwellings and Lessors of Nonresidential Buildings.

LOAN LOSS CHARGE-OFF PROCEDURES

The Corporation maintains an allowance to cover probable credit losses in its loan portfolio. The allowance is increased by the provision for loan losses and decreased by charge-offs less recoveries. All charge-offs are approved by the senior loan officers or loan committees, depending on the amount of the charge-off. and are reported to the Risk and Credit Policy Committee of the Board of Directors. Loans are charged off when a determination is made that all or a portion of a loan is uncollectible.

PROVISION FOR LOAN LOSSES

In banking, loan losses are a cost of doing business. Although management emphasizes the early detection and charge-off of loan losses, it is inevitable that certain losses, which have not been specifically identified, exist in the portfolio. Accordingly, the provision for loan losses is charged to earnings on an anticipatory basis, and recognized loan losses net of recoveries are deducted from the established allowance. Over time, all net loan losses are charged to earnings. Based on management’s judgment as to the appropriate level of the allowance for loan 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 for loan 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 evaluation by management includes consideration of past loan loss experience, changes in the composition of the loan portfolio, and the current condition and amount of loans outstanding. See additional information in the “Provision and Allowance For Loan Losses” section of Management’s Discussion and Analysis of Financial Condition and Results of Operations included as Item 7 of this Annual Report on Form 10-K.

DEPOSITS

The average balances, interest expense and average rates on deposits for the years ended December 31, 2019, 2018 and 2017 are presented in the Part I. Item I. Business section titled "DISTRIBUTION OF ASSETS, LIABILITIES AND STOCKHOLDERS' EQUITY, INTEREST RATES AND INTEREST DIFFERENTIAL" of this Annual Report on Form 10-K.

As of December 31, 2019, certificates of deposit and other time deposits of $100,000 or more mature as follows:

(Dollars in Thousands)	**Maturing 3 Months or Less**	**Maturing 3-6 Months**	**Maturing 6-12 Months**	**Maturing Over 12 Months**	**Total**
Certificates of deposit and other time deposits	$ 141,860	$ 171,914	$ 373,685	$ 49,384	$ 736,843
Percent	19%	23%	51%	7%	100%

RETURN ON EQUITY AND ASSETS

See the information regarding return on equity and assets presented within Part II: Item 6. SELECTED FINANCIAL DATA of this Annual Report on Form 10-K.

SHORT-TERM BORROWINGS

Borrowings maturing in one year or less are included in the following table:

(Dollars in Thousands)	2019	2018	2017
Balance at December 31:			
Federal funds purchased	$ 55,000	$ 104,000	$ 144,038
Securities sold under repurchase agreements (short-term portion)	187,946	113,512	136,623
Federal Home Loan Bank advances (short-term portion)	41,370	113,712	171,391
Total short-term borrowings	$ 284,316	$ 331,224	$ 452,052

Securities sold under repurchase agreements are categorized as borrowings maturing within one year and are secured by U.S. Government-Sponsored Enterprise obligations, certain municipal securities and mortgage loans.

Pertinent information with respect to borrowings maturing in one year or less is summarized below:

(Dollars in Thousands)	2019	2018	2017
Weighted Average Interest Rate on Outstanding Balance at December 31:			
Federal funds purchased	1.4%	1.7%	0.9%
Securities sold under repurchase agreements (short-term portion)	0.8%	0.9%	0.4%
Federal Home Loan Bank advances (short-term portion)	1.8%	1.5%	1.5%
Total short-term borrowings	1.1%	1.4%	0.9%
Weighted Average Interest Rate During the Year:			
Federal funds purchased	2.3%	1.9%	1.2%
Securities sold under repurchase agreements (short-term portion)	1.0%	0.6%	0.4%
Federal Home Loan Bank advances (short-term portion)	1.8%	2.0%	1.3%
Total short-term borrowings	1.4%	1.4%	0.9%
Highest Amount Outstanding at Any Month End During the Year:			
Federal funds purchased	$ 80,000	$ 124,911	$ 144,038
Securities sold under repurchase agreements (short-term portion)	191,603	143,016	145,883
Federal Home Loan Bank advances (short-term portion)	163,800	211,800	207,061
Total short-term borrowings	$ 435,403	$ 479,727	$ 496,982
Average Amount Outstanding During the year:			
Federal funds purchased	$ 10,810	$ 36,873	$ 47,078
Securities sold under repurchase agreements (short-term portion)	136,274	124,762	134,401
Federal Home Loan Bank advances (short-term portion)	89,677	137,499	152,452
Total short-term borrowings	$ 236,761	$ 299,134	$ 333,931

PART I: ITEM 1A. AND ITEM 1B.

ITEM 1A. RISK FACTORS

RISK FACTORS

There are a number of factors, including those specified below, that may adversely affect the Corporation's business, financial results or stock price. Additional risks that the Corporation currently does not know about or currently views as immaterial may also impair the Corporation's business or adversely impact its financial results or stock price.

INDUSTRY AND CORPORATE RISK FACTORS

- *The Corporation's business and financial results are significantly affected by general business and economic conditions.*

The Corporation's business activities and earnings are affected by general business conditions in the United States and abroad. These conditions include short-term and long-term interest rates, inflation, monetary supply, fluctuations in both debt and equity capital markets, and the strength of the United States economy and the state and local economies in which the Corporation operates. The Corporation's offices are primarily located in central and northern Indiana, northeast Illinois, central Ohio and southeast Michigan. Worsening economic conditions in our market areas could negatively impact the financial condition, results of operations and stock price of the Corporation. For example, a prolonged economic downturn, increases in unemployment, or other events that affect household and/or corporate incomes could result in deterioration of credit quality, an increase in the allowance for loan losses, or reduced demand for loan or fee-based products and services. Changes in the financial performance and condition of the Corporation's borrowers could negatively affect repayment of those borrowers' loans. In addition, changes in securities market conditions and monetary fluctuations could adversely affect the availability and terms of funding necessary to meet the Corporation's liquidity needs.

- *Changes in the domestic interest rate environment could affect the Corporation's net interest income as well as the valuation of assets and liabilities.*

The operations of financial institutions, such as the Corporation, are dependent to a large degree on net interest income, which is the difference between interest income from loans and investments and interest expense on deposits and borrowings. An institution's net interest income is significantly affected by market rates of interest, which in turn are affected by prevailing economic conditions, by the fiscal and monetary policies of the federal government and by the policies of various regulatory agencies. In addition to affecting profitability, changes in interest rates can impact the valuation of assets and liabilities. For example, changes in reference rates linked to financial instruments, such as the London Interbank Offered Rate (LIBOR), may adversely affect the value of financial instruments the Corporation holds or issues and related net interest income. Rate changes can also affect the ability of borrowers to meet obligations under variable or adjustable rate loans which in turn affect loss rates on those assets. Also, the demand for interest rate based products and services, including loans and deposit accounts, may decline resulting in the flow of funds away from financial institutions into direct investments. Direct investments, such as U.S. Government and corporate securities and other investment vehicles, including mutual funds, generally pay higher rates of return than financial institutions, because of the absence of federal insurance premiums and reserve requirements.

- *The replacement of LIBOR with an alternative reference rate could have an adverse impact on the Corporation.*

In July 2017, the U.K. Financial Conduct Authority, the authority regulating LIBOR, announced that LIBOR in its current state would be discontinued at the end of 2021. LIBOR is commonly referenced in financial contracts and the Corporation has exposure to the termination of this interest rate index in loans, derivatives, debt agreements, and other instruments. A cross functional project team has been established to determine the level of exposure, identify the appropriate replacement rate(s), and develop migration strategies. Industry groups, regulators and other various oversight bodies will be consulted throughout the transition. Any replacement interest rate(s) may perform differently and we may incur significant costs to transition both our borrowing arrangements and the loan agreements with our customers from LIBOR, which may have an adverse effect on our results of operations. In addition, amending certain contracts indexed to LIBOR may require consent from impacted counterparties which could be difficult to obtain. The financial and operational impact of the transition is unknown at this time.

- *Changes in the laws, regulations and policies governing banks and financial services companies could alter the Corporation's business environment and adversely affect operations.*

The Board of Governors of the Federal Reserve System regulates the supply of money and credit in the United States. Its fiscal and monetary policies determine in a large part the Corporation's cost of funds for lending and investing and the return that can be earned on those loans and investments, both of which affect the Corporation's net interest margin. Federal Reserve Board policies can also materially affect the value of financial instruments that the Corporation holds, such as debt securities. The Corporation and the Bank are heavily regulated at the federal and state levels. This regulation is to protect depositors, federal deposit insurance funds and the banking system as a whole. Congress and state legislatures and federal and state agencies continually review banking laws, regulations and policies for possible changes. After the Great Recession, efforts to promote the safety and soundness of financial institutions, financial market stability, the transparency and liquidity of financial markets, and consumer and investor protection resulted in increased regulation in the financial services industry. Regulatory agencies have intensified their examination practices and enforcement of laws and regulations. Compliance with regulations and other supervisory initiatives could increase the Corporation's expenses and reduce revenues by limiting the types of financial services and products that the Corporation offers and/or increasing the ability of non-banks to offer competing financial services and products. See a description of recent legislation in the "REGULATION AND SUPERVISION OF FIRST MERCHANTS CORPORATION AND SUBSIDIARIES" section of Item 1: Business of this Annual Report on Form 10-K.

The banking industry, as well as the broader economy, may be subject to new legislation, regulation, and government policy. Future legislation, regulation, and government policy could affect the banking industry as a whole, including our business and results of operations, in a way that cannot accurately be predicted. In addition, our financial condition and results of operations also could be adversely affected by changes in the way in which existing statutes and regulations are interpreted or applied by courts and government agencies.

PART I: ITEM 1A. AND ITEM 1B.

Certain regulations require the Corporation to maintain certain capital ratios, such as the ratio of Tier 1 capital to risk-based assets. Both the Dodd-Frank Act, which reformed the regulation of financial institutions in a comprehensive manner, and the Basel III regulatory capital reforms, which increase both the amount and quality of capital that financial institutions must hold, impact capital requirements. If the Corporation is unable to satisfy these heightened regulatory capital requirements, due to a decline in the value of the loan portfolio or otherwise, raising additional capital or disposing of assets could be required. Additional capital could be raised by selling additional shares of common stock, or securities convertible into or exchangeable for common stock, which could significantly dilute the ownership percentages of stockholders and cause the market price of our common stock to decline. Events or circumstances in the capital markets generally may increase capital costs and impair the ability to raise capital at any given time. Disposal of assets cannot guarantee disposal at prices appropriate for the disposition, and future operating results could be negatively affected.

- *The Corporation is subject to heightened regulatory requirements as the Corporation's assets have exceeded $10 billion.*

Based on the Corporation’s organic growth and recent acquisitions, the Corporation’s total consolidated assets exceeded $10 billion for four consecutive quarters as of December 31, 2019. As a result, the Corporation is subject to increased regulatory scrutiny and additional expectations imposed by the Dodd-Frank Act. The increased regulatory scrutiny comes from the examination of compliance with federal consumer protection laws by the CFPB. The CFPB’s examination practices continue to evolve and it is uncertain how they might impact the Corporation. The Durbin Amendment imposes limits on interchange fees paid by merchants to banks whose assets exceed $10 billion when debit cards are used as payment. These limits are expected to materially reduce the Corporation's fee income. Compliance with the CFPB standards could increase the Corporation’s operational costs. Our other regulators may also consider our compliance with these requirements when examining our operations generally or considering any request for regulatory approval we may make.

- *Our FDIC insurance premiums may increase, and special assessments could be made, which might negatively impact our results of operations.*

High levels of insured institution failures, as a result of the last recession, significantly increased losses to the Deposit Insurance Fund of the FDIC. Further, the Dodd-Frank Act mandated the FDIC to increase the level of its reserves for future losses in its Deposit Insurance Fund. Since the Deposit Insurance Fund is funded by premiums and assessments paid by insured banks, our FDIC insurance premium could increase in future years depending upon the FDIC’s actual loss experience, changes in the Bank’s financial condition or capital strength, and future conditions in the banking industry. As the Corporation's assets have exceeded $10 billion, the method for calculating the Bank’s FDIC assessment will change and we expect that such assessment will increase as a result. See the “Deposit Insurance” section of “REGULATION AND SUPERVISION OF FIRST MERCHANTS CORPORATION AND SUBSIDIARIES” under this Item 1. Business for additional information.

- *The banking and financial services industry is highly competitive, and competitive pressures could intensify and adversely affect the Corporation’s financial results.*

The Corporation operates in a highly competitive industry that could become even more competitive as a result of legislative, regulatory and technological changes and continued consolidation. The Corporation competes with other banks, savings and loan associations, mutual savings banks, finance companies, mortgage banking companies, credit unions and investment companies. In addition, technology has lowered barriers to entry and made it possible for non-banks to offer products and services traditionally provided by banks. Many of the Corporation’s competitors have fewer regulatory constraints, greater resources and lower cost structures allowing them to aggressively price their products. In December 2016, the OCC announced its intent to make special purpose national bank charters available to financial technology companies. The agency published a paper discussing issues related to chartering special purpose national banks and solicited public comment to help guide its approach to financial innovation. Such pressures make it more difficult for the Corporation to attract and retain customers across its business lines. Also, the demands of adapting to industry changes in technology and systems, on which the Corporation and financial services industry are highly dependent, could present operational issues and require capital spending.

Additionally, our success depends, in large part, on our ability to attract and retain key people. Competition for the best people in many activities for which the Corporation is engaged is intense and we may not be able to hire people and retain them. The unexpected loss of services of key personnel could have a material adverse impact on our business, financial condition and results of operations because of their customer relationships, skills, knowledge of our markets, years of industry experience and the difficulty of promptly finding qualified replacement personnel. In addition, the scope and content of U.S. banking regulators' policies on incentive compensation, as well as changes to these policies, could adversely affect our ability to hire, retain and motivate our key employees.

- *The Corporation’s allowance for loan losses may not be adequate to cover actual losses.*

The Corporation maintains an allowance for loan losses to provide for loan defaults and non-performance. The allowance for loan losses represents management’s estimate of probable losses inherent in the Corporation’s loan portfolio. The Corporation’s allowance consists of three components: probable losses estimated from individual reviews of specific loans, probable losses estimated from historical loss rates, and probable losses resulting from economic, environmental, qualitative or other deterioration above and beyond what is reflected in the first two components of the allowance. The process for determining the adequacy of the allowance for loan losses is critical to the Corporation’s financial results. It requires management to make difficult, subjective and complex judgments, as a result of the need to make estimates about the effect of matters that are uncertain. Therefore, the allowance for loan losses, considering current factors at the time, including economic conditions and ongoing internal and external examination processes, will increase or decrease as deemed necessary to ensure the allowance for loan losses remains adequate. In addition, the allowance as a percentage of charge-offs and nonperforming loans will change at different points in time based on credit performance, loan mix and collateral values.

In addition, the adoption of Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* as amended, on January 1, 2020 will impact our methodology for estimating the allowance for credit losses and could increase volatility in the Corporation's financial results. See NOTE 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K. ASU 2016-13 requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. The Corporation expects to record a one-time cumulative-effect adjustment to retained earnings, net of income taxes, on its consolidated balance sheet as of the beginning of the first quarter of 2020. The allowance will increase by 55-65 percent because it will cover expected credit losses over the life of the loan portfolio, which approximates four years, and it includes all purchased loans that were previously excluded from the allowance for loan losses calculation. CECL also requires the establishment of a reserve for potential losses from unfunded commitments that is recorded in other liabilities, separate from allowance for credit losses, which is estimated to be approximately $18 million. These estimates and the ongoing impact of adopting this ASU are dependent on various factors, including credit quality, macroeconomic forecasts and conditions, composition of our loans and securities portfolios, and other management judgments. The adjustment to reflect the allowance increase and the reserve for potential losses, which remain subject to further review and analysis by our management team, may fall outside of, or be different than, our estimates as a result of any material changes in these factors.

- *The Corporation may suffer losses in its loan portfolio despite its underwriting practices.*

The Corporation seeks to mitigate the risks inherent in its loan portfolio by adhering to specific underwriting practices. The Corporation’s strategy for credit risk management includes conservative credit policies and underwriting criteria for all loans, as well as an overall credit limit for each customer significantly below legal lending limits. The strategy also emphasizes diversification on a regional geographic, industry and customer level, regular credit quality reviews and management reviews of large credit exposures and loans experiencing deterioration of credit quality. There is a continuous review of the loan portfolio, including an internally administered loan “watch” list and an independent loan review. The evaluation takes into consideration identified credit problems, as well as the possibility of losses inherent in the loan portfolio that are not specifically identified. Although the Corporation believes that its underwriting criteria are appropriate for the various kinds of loans it makes, the Corporation may incur losses on loans due to the factors previously discussed.

- *The Corporation's wholesale funding sources may prove insufficient to replace deposits or support future growth.*

As part of the Corporation's liquidity management, a number of funding sources are used, including core deposits and repayments and maturities of loans and investments. Sources also include brokered certificates of deposit, repurchase agreements, federal funds purchased and FHLB advances. Negative operating results or changes in industry conditions could lead to an inability to replace these additional funding sources at maturity. The Corporation's financial flexibility could be constrained if we are unable to maintain access to funding or if adequate financing is not available to accommodate future growth at acceptable interest rates. Finally, if the Corporation is required to rely more heavily on more expensive funding sources to support future growth, revenues may not increase proportionately to cover the costs. In this case the Corporation's results of operations and financial condition would be negatively affected.

- *The Corporation relies on dividends from its subsidiaries for its liquidity needs.*

The Corporation is a separate and distinct legal entity from its bank and non-bank subsidiaries. The Corporation receives substantially all of its cash from dividends paid by its subsidiaries. These dividends are the principal source of funds to pay dividends on the Corporation’s stock and interest and principal on its debt. Various federal and state laws and regulations limit the amount of dividends that the bank subsidiaries may pay to the Corporation.

- *Acquisitions may not produce revenue enhancements or cost savings at levels or within timeframes originally anticipated and may result in unforeseen integration difficulties.*

The Corporation regularly explores opportunities to acquire banks, financial institutions, or other financial services businesses or assets. The Corporation cannot predict the number, size or timing of acquisitions. Difficulty in integrating an acquired business or company may cause the Corporation not to realize expected revenue increases, cost savings, increases in geographic or product presence, and/or other projected benefits from the acquisition. The integration could result in higher than expected deposit attrition (run-off), loss of key employees, disruption of the Corporation’s business or the business of the acquired company, or otherwise adversely affect the Corporation’s ability to maintain relationships with customers and employees or achieve the anticipated benefits of the acquisition. Also, the negative effect of any divestitures required by regulatory authorities in acquisitions or business combinations may be greater than expected. The Corporation may also issue equity securities in connection with acquisitions, which could cause ownership and economic dilution to current stockholders.

- *The Corporation faces operational risks because the nature of the financial services business involves a high volume of transactions.*

The Corporation operates in diverse markets and relies on the ability of its employees and systems to process a high number of transactions. Operational risk is the risk of loss resulting from the Corporation’s operations, including, but not limited to, the risk of fraud by employees or persons outside of the Corporation, the execution of unauthorized transactions by employees, errors relating to transaction processing and technology, breaches of the internal control system and compliance requirements and business continuation and disaster recovery. This risk of loss also includes the potential legal actions that could arise as a result of an operational deficiency or as a result of noncompliance with applicable regulatory standards, adverse business decisions or their implementation, and customer attrition due to potential negative publicity. In the event of a breakdown in the internal control system, improper operation of systems or improper employee actions, the Corporation could suffer financial loss, face regulatory action and suffer damage to its reputation.

PART I: ITEM 1A. AND ITEM 1B.

- *A disaster, natural or otherwise, acts of terrorism and political or military actions taken by the United States or other governments could adversely affect the Corporation's business, directly or indirectly.*

Disasters (such as tornadoes, floods, and other severe weather conditions, pandemics, fires, and other catastrophic accidents or events) and terrorist activities and the impact of these occurrences cannot be predicted. Such occurences could harm the Corporation's operations and financial condition directly through interference with communications and through the destruction of facilities and operational, financial and management information systems and/or indirectly by adversely affecting economic and industry conditions. These events could prevent the Corporation from gathering deposits, originating loans and processing and controlling its flow of business by affecting borrowers, depositors, suppliers or other counterparties. The Corporation's ability to mitigate the adverse impact of these occurrences would depend in part on the Corporation's business continuity planning, the ability to anticipate any such event occurring, the preparedness of national or regional emergency responders, and continuity planning of parties the Corporation deals with.

- *Cyber incidents and other security breaches at the Corporation, its service providers or counterparties, or in the business community or markets may negatively impact the Corporation's business or performance.*

In the ordinary course of its business, the Corporation collects, stores, and transmits sensitive, confidential, or proprietary data and other information, including intellectual property, business information, funds-transfer instructions, and the personally identifiable information of its customers and employees. The secure processing, storage, maintenance, and transmission of this information is critical to the Corporation's operations and reputation, and if any of this information were mishandled, misused, improperly accessed, lost, or stolen or if the Corporation's operations were disrupted, the Corporation could suffer significant financial, business, reputational, regulatory, or other damage.

The Corporation maintains a comprehensive Cyber and Information Security Program and significant resources are devoted to protecting the Corporation's assets from threats. Despite security measures, the Corporation's information technology and infrastructure may be breached through cyber-attacks, computer viruses or malware, pretext calls, electronic phishing, or other means. These risks and uncertainties are rapidly evolving and increasing in complexity, and the Corporation's failure to effectively mitigate them could negatively impact its business and operations.

Service providers and counterparties also present a source of risk to the Corporation if their own security measures or other systems or infrastructure were to be breached or otherwise fail. Likewise, a cyber-attack or other security breach affecting the business community, the markets, or parts of them may cycle or cascade through the financial system and adversely affect the Corporation or its service providers or counterparties. Many of these risks and uncertainties are beyond the Corporation's control.

Even when an attempted cyber incident or other security breach is successfully avoided or thwarted, the Corporation may need to expend substantial resources in doing so, may be required to take actions that could adversely affect customer satisfaction or behavior, and may be exposed to reputational damage. If a breach were to occur, moreover, the Corporation could be exposed to contractual claims, regulatory actions, and litigation by private plaintiffs, and would additionally suffer reputational harm. Despite the Corporation's efforts to safeguard the integrity of systems and controls and to manage third-party risk, the Corporation may not be able to anticipate or implement effective measures to prevent all security breaches or all risks to the sensitive, confidential, or proprietary information that it or its service providers or counterparties collect, store, or transmit. In addition, the Corporation may not have adequate insurance coverage to compensate for losses from a cyber incident or other security breach.

- *The Corporation continually encounters technological change.*

The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables the financial institutions to better serve customers to reduce costs. The Corporation's future success depends, in part, upon its ability to address customer needs by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in the Corporation's operations. The Corporation may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to its customers. Failure to successfully keep pace with technological changes affecting the financial services industry could negatively affect the Corporation's growth, revenue and profit. In addition, the Corporation relies upon the expertise and support of third-party service providers to help implement, maintain and/or service certain of its core technology solutions. If the Corporation cannot effectively manage these service providers, the service parties fail to materially perform, or the Corporation was to falter in any of the other noted areas, its business or performance could be negatively impacted.

- *The Corporation's controls and procedures may fail or be circumvented.*

Management regularly reviews and updates the Corporation's internal controls, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of the Corporation's controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on our results of operations and financial condition.

- *The Corporation's methods of reducing risk exposure may not be effective.*

The Corporation maintains a comprehensive risk management program designed to identify, quantify, manage, mitigate, monitor, aggregate, and report risks. However, instruments, systems and strategies used to hedge or otherwise manage exposure to various types of credit, market, liquidity, operational, compliance, financial reporting and strategic risks could be less effective than anticipated. As a result, the Corporation may not be able to effectively mitigate its risk exposures in particular market environments or against particular types of risk, which could have a material adverse effect on our results of operations and financial condition.

PART I: ITEM 1A. AND ITEM 1B.

- *The Corporation’s reported financial results depend on management’s selection of accounting methods and certain assumptions and estimates.*

The Corporation’s accounting policies and methods are fundamental to how it records and reports its financial condition and results of operations. The Corporation’s management must exercise judgment in selecting and applying many of these accounting policies and methods, so they comply with GAAP and reflect management’s judgment of the most appropriate manner to report the Corporation’s financial condition and results. In some cases, management must select the accounting policy or method to apply from two or more alternatives, any of which might be reasonable under the circumstances yet might result in the Corporation reporting materially different results than would have been reported under a different alternative. Certain accounting policies are critical to presenting the Corporation’s financial condition and results, and require management to make difficult, subjective or complex judgments about matters that are uncertain. Materially different amounts could be reported under different conditions or using different assumptions or estimates. These critical accounting policies include: the allowance for loan losses; the valuation of investment securities; the valuation of goodwill and intangible assets; pension accounting; and the accounting related to acquisitions. Because of the uncertainty of estimates involved in these matters, the Corporation may be required to do one or more of the following: significantly increase the allowance for loan losses and/or sustain loan losses that are significantly higher than the reserve provided; recognize significant provision for impairment of its investment securities; recognize significant impairment on its goodwill and intangible assets; significantly increase its pension liability; or modify the purchase price allocation of an acquisition. As part of its function of assisting the Corporation’s Board of Directors in discharging its responsibility of ensuring all types of risk to the organization are properly being managed, mitigated and monitored by management, the Audit Committee of the Board of Directors oversees management’s accounting policies and methods. For more information, refer to NOTE 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

- *A write-down of all or part of the Corporation’s goodwill could materially reduce its net income and net worth.*

At December 31, 2019, the Corporation had goodwill of $543,918,000 recorded on its consolidated balance sheet. Under ASC 350, *Intangibles – Goodwill and Other*, the Corporation is required to evaluate goodwill for impairment on an annual basis, as well as on an interim basis, if events or changes indicate that the asset may be impaired. An impairment loss must be recognized for any excess of carrying value over the fair value of goodwill. The fair value is determined based on internal valuations using management’s assumptions of future growth rates, future attrition, discount rates, multiples of earnings or other relevant factors. The resulting estimated fair value could result in material write-downs of goodwill and recording of impairment losses. Such a write-down could materially reduce the Corporation’s net income and overall net worth. The Corporation also cannot predict the occurrence of certain future events that might adversely affect the fair value of goodwill. Such events include, but are not limited to, strategic decisions made in response to economic and competitive conditions, the effect of the economic environment on the Corporation’s customer base, or a material negative change in its relationship with significant customers.

- *Changes in accounting standards could materially impact the Corporation’s financial statements.*

From time to time, the Financial Accounting Standards Board changes the financial accounting and reporting standards that govern the preparation of the Corporation’s financial statements. These changes can be hard to predict and can materially impact how the Corporation records and reports its financial condition and results of operations. In some cases, the Corporation could be required to apply a new or revised standard retroactively; resulting in the restatement of prior period financial statements.

- *Changes in tax legislation could materially impact the Corporation’s business and financial results.*

From time to time, the U.S government or State governments where the Corporation has tax nexus can enact tax legislation that may have a material effect on the Corporation's business and financial results. On December 22, 2017, the U.S. government enacted tax reform legislation commonly referred to as the Tax Cuts and Jobs Act ("TCJA") which made significant changes to the Internal Revenue Code of 1986, as amended. The legislation, among other things, made significant changes to the rules applicable to the taxation of corporations, such as changing the corporate tax rate to 21 percent, modifying the rules regarding limitations on certain deductions for executive compensation, introducing a capital investment deduction in certain circumstances, placing certain limitations on the interest deduction, and modifying the rules regarding the usability of net operating losses. ASC 740, *Income Taxes,* requires the impact of tax legislation to be recognized in the accounting period the legislation is signed into law. As such, the $5.1 million impact of revaluing the Corporation's deferred tax assets and liabilities has been recorded in income tax expense as of December 31, 2017.

While our earnings have been positively impacted by the rate reduction and the resulting increase in economic activity, the TCJA also enacted limitations on certain deductions that have had a negative impact on borrowers and the market for single-family residential real estate, and, as a result, on the banking industry. These limitations include (1) a lower limit on the deductibility of mortgage interest on single-family residential mortgage loans, (2) the elimination of interest deductions for certain home equity loans, (3) a limitation on the deductibility of business interest expense, and (4) a limitation on the deductibility of property taxes and state and local income taxes. Given the current economic and political environment and ongoing budgetary pressures, the enactment of further new federal or state tax legislation may occur. The enactment of such legislation, or changes in the interpretation of existing law, including provisions impacting tax rates, apportionment, consolidation or combination, income, expenses, credits and exemptions may have a material adverse effect on our business, financial condition and results of operations.

- *Significant legal actions could subject the Corporation to substantial uninsured liabilities.*

The Corporation is from time to time subject to claims related to its operations. These claims and legal actions, including supervisory actions by the Corporation’s regulators, could involve large monetary claims and significant defense costs. To protect itself from the cost of these claims, the Corporation maintains insurance coverage in amounts and with deductibles that it believes are appropriate for its operations. However, the Corporation’s insurance coverage may not cover all claims against the Corporation or continue to be available to the Corporation at a reasonable cost. As a result, the Corporation may be exposed to substantial uninsured liabilities, which could adversely affect the Corporation’s results of operations and financial condition.

PART I: ITEM 1A. AND ITEM 1B.

- *Negative publicity could damage the Corporation's reputation and adversely impact its business and financial results.*

Reputation risk, or the risk to the Corporation's earnings and capital from negative publicity, is inherent in the Corporation's business. Negative publicity can result from the Corporation's actual or alleged conduct in any number of activities, including lending practices, corporate governance and acquisitions, and actions taken by government regulators and community organizations in response to those activities. Negative publicity can adversely affect the Corporation's ability to keep and attract customers and can expose the Corporation to litigation and regulatory action. Although the Corporation takes steps to minimize reputation risk in dealing with customers and other constituencies, the Corporation is inherently exposed to this risk.

- *The Corporation may not be able to pay dividends in the future in accordance with past practice.*

The Corporation has traditionally paid a quarterly dividend to common stockholders. The payment of dividends is subject to legal and regulatory restrictions. Any payment of dividends in the future will depend, in large part, on the Corporation's earnings, capital requirements, financial condition and other factors considered relevant by the Corporation's Board of Directors.

- *The Corporation's stock price can be volatile.*

The Corporation's stock price can fluctuate widely in response to a variety of factors, including: actual or anticipated variations in the Corporation's quarterly operating results; recommendations by securities analysts; significant acquisitions or business combinations; strategic partnerships, joint ventures or capital commitments; operating and stock price performance of other companies that investors deem comparable to the Corporation; new technology used or services offered by the Corporation's competitors; news reports relating to trends, concerns and other issues in the banking and financial services industry, and changes in government regulations. General market fluctuations, industry factors and general economic and political conditions and events, including terrorist attacks, economic slowdowns or recessions, interest rate changes, credit loss trends or currency fluctuations, could also cause the Corporation's stock price to decrease, regardless of the Corporation's operating results.

- *The Bank is operating under a Settlement Agreement and Agreed Order ("Settlement Agreement") with the United States Department of Justice ("DOJ"), and its failure to comply with the Agreement could materially and adversely affect our business.*

The Bank is operating under a Settlement Agreement and Agreed Order with the DOJ, and its failure to comply with the Settlement Agreement could materially and adversely affect our business. Our Board of Directors and executive management team have been working diligently to comply with the Settlement Agreement and believe that they have allocated sufficient resources to address the corrective actions required by the DOJ. Compliance with and resolution of the Settlement Agreement will ultimately be determined by the DOJ. The Bank's failure to comply with the Settlement Agreement and to successfully implement its requirements or the general perception of the Settlement Agreement by other regulators with jurisdiction over the Corporation or the Bank could have a material and adverse effect on our business, results of operation, financial condition, plans for and timing of future acquisitions and expansion, cash flows and stock price.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

PART I: ITEM 2., ITEM 3. AND ITEM 4.

ITEM 2. PROPERTIES.

The headquarters of the Corporation and the Bank are located at 200 East Jackson Street, Muncie, Indiana. The building is owned by the Bank.

The Bank conducts business through numerous facilities owned and leased. Of the 128 banking offices operated by the Bank, 110 are owned and 18 are leased from non-affiliated third parties.

None of the properties owned by the Corporation are subject to any major encumbrances. The net investment of the Corporation and subsidiaries in real estate and equipment at December 31, 2019 was $113,055,000.

ITEM 3. LEGAL PROCEEDINGS.

There are no pending legal proceedings, other than litigation incidental to the ordinary course of business of the Corporation and its subsidiaries, of a material nature to which the Corporation or its subsidiaries is a party, or of which any of their properties are 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 4. MINE SAFETY DISCLOSURES.

Not applicable.

SUPPLEMENTAL INFORMATION

SUPPLEMENTAL INFORMATION - INFORMATION ABOUT OUR EXECUTIVE OFFICERS

The names, ages, and positions with the Corporation and the Bank of all executive officers of the Corporation and all persons chosen to become executive officers are listed below. The officers are elected by the Board of Directors of the Corporation for a term of one year or until the election of their successors. There are no arrangements between any officer and any other person pursuant to which he or she was selected as an officer.

Michael C. Rechin*, 61, President and Chief Executive Officer, Corporation*
President and Chief Executive Officer of the Corporation since April 2007; Chief Operating Officer of the Corporation from November 2005 to April 2007; Executive Vice President, Corporate Banking National City Bank from 1995 to November 2005.

Mark K. Hardwick*, 49, Executive Vice President and Chief Financial Officer and Chief Operating Officer, Corporation*
Executive Vice President and Chief Financial Officer and Chief Operating Officer of the Corporation since May 2016; Executive Vice President and Chief Financial Officer of the Corporation since December 2005; Senior Vice President and Chief Financial Officer of the Corporation from April 2002 to December 2005; Corporate Controller of the Corporation from November 1997 to April 2002.

Michael J. Stewart*, 54, Executive Vice President and Chief Banking Officer, Corporation*
Executive Vice President and Chief Banking Officer of the Corporation since February 2008; Executive Vice President from December 2006 to February 2008 of National City Corp; Executive Vice President and Chief Credit Officer of National City Bank of Indiana from December 2002 to December 2006.

John J. Martin*, 53, Executive Vice President and Chief Credit Officer, Corporation*
Executive Vice President and Chief Credit Officer of the Corporation since March 2013; Senior Vice President and Chief Credit Officer of the Corporation from June 2009 to March 2013; First Vice President and Deputy Chief Credit Officer of the Corporation from July 2008 to June 2009; First Vice President and Senior Manager of Lending Process of the Corporation from January 2008 to July 2008; Senior Vice President and Regional Senior Credit Officer of National City Bank from May 2000 to December 2007.

Stephan H. Fluhler*, 51, Senior Vice President, Chief Information Officer, Corporation*
Senior Vice President and Chief Information Officer of the Corporation since May 2014; Chief Technology Officer of the Corporation from 2004 to May 2014; Director of Technology Services and Change Management of the Corporation from December 2003 to 2004.

Jeffrey B. Lorentson*, 56, Senior Vice President and Chief Risk Officer, Corporation*
Senior Vice President and Chief Risk Officer of the Corporation since June 2007; Corporate Controller of First Indiana Bank from June 2006 to June 2007; First Vice President and Corporate Controller of the Corporation from 2003 to 2006; Vice President and Corporate Controller of the Corporation from 2002 to 2003.

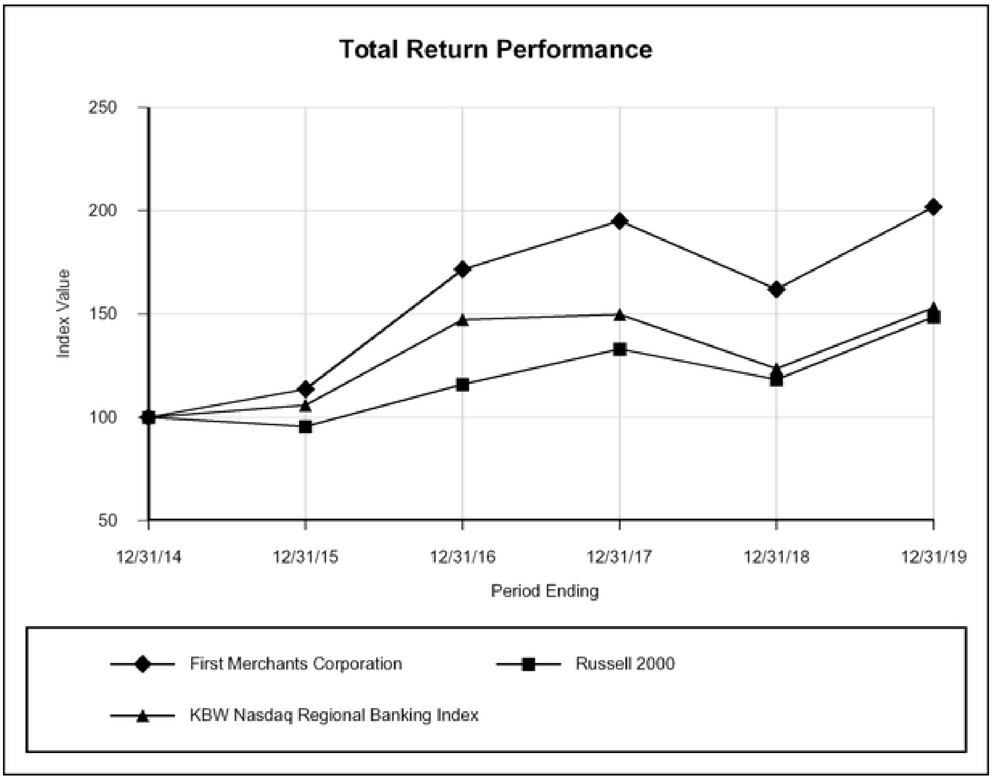
Michele M. Kawiecki, *47, Senior Vice President and Director of Finance, Corporation*
Senior Vice President and Director of Finance of the Corporation since March 2015; Senior Vice President of Capital Management and Assistant Treasurer of UMB Financial Corporation from May 2011 to March 2015; Director of Corporate Development and Enterprise Project Management at UMB Financial Corporation from May 2008 to May 2011; Chief Risk Officer at UMB Financial Corporation from February 2004 to May 2008.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

PERFORMANCE GRAPH

The following graph compares the cumulative 5-year total return to shareholders on First Merchants Corporation's common stock relative to the cumulative total returns of the Russell 2000 index and the KBW Nasdaq Regional Banking Index. The graph assumes that the value of the investment in the Corporation's common stock and in each of the indexes (including reinvestment of dividends) was $100 on December 31, 2014 and tracks it through December 31, 2019.



	Period Ending					
Index	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018	12/31/2019
First Merchants Corporation	$ 100.00	$ 113.59	$ 171.58	$ 194.94	$ 161.94	$ 201.79
Russell 2000	100.00	95.59	115.95	132.94	118.30	148.49
KBW Nasdaq Regional Banking Index	100.00	105.91	147.24	149.82	123.60	153.03

The stock price performance included in this graph is not necessarily indicative of future stock price performance.

COMMON STOCK LISTING

First Merchants Corporation common stock is traded on the Nasdaq Global Select Market under the symbol FRME. At the close of business on February 21, 2020, the number of shares outstanding was 55,155,733. There were 4,479 stockholders of record on that date.

PART II: ITEM 5. AND ITEM 6.

PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASES

The following table presents information relating to our purchases of equity securities during the three months ended December 31, 2019, as follows:

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)
October, 2019	—	$ —	—	2,483,984
November, 2019	—	$ —	—	2,483,984
December, 2019	116	$ 41.11	—	2,483,984

(1) Includes 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.

(2) On September 3, 2019, the Board of Directors of the Corporation approved a stock repurchase program of up to 3 million shares of the Corporation's outstanding common stock; provided however, that the total aggregate investment in shares repurchased under the program may not exceed $75,000,000. 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 516,016 shares of common stock for a total investment of $19.0 million.

EQUITY COMPENSATION PLAN INFORMATION

The following table provides information about the Corporation's common stock that may be issued under equity compensation plans as of December 31, 2019.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercised price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensations plans (excluding securities reflected in first column)
Equity compensation plans approved by stockholders	59,350	$ 13.51	1,625,354
Total	59,350	$ 13.51	1,625,354

PART II: ITEM 5. AND ITEM 6.

ITEM 6. SELECTED FINANCIAL DATA.

(Dollars in Thousands, Except Share Data)	2019	2018	2017	2016	2015
Operations [1] [2] [3] [4] [5]					
Net interest income fully taxable equivalent (FTE) basis	$ 369,745	$ 349,589	$ 294,554	$ 240,014	$ 207,379
Less tax equivalent adjustment	13,085	10,732	17,270	13,541	10,975
Net interest income	356,660	338,857	277,284	226,473	196,404
Provision for loan losses	2,800	7,227	9,143	5,657	417
Net interest income after provision for loan losses	353,860	331,630	268,141	220,816	195,987
Total other income	86,688	76,459	71,009	65,203	69,868
Total other expenses	246,763	219,951	205,556	177,359	174,806
Income before income tax expense	193,785	188,138	133,594	108,660	91,049
Income tax expense	29,325	28,999	37,524	27,609	25,665
Net income available to common stockholders	$ 164,460	$ 159,139	$ 96,070	$ 81,051	$ 65,384
Per Share Data					
Basic net income available to common stockholders	$ 3.20	$ 3.23	$ 2.13	$ 1.99	$ 1.73
Diluted net income available to common stockholders	3.19	3.22	2.12	1.98	1.72
Cash dividends paid - common	1.00	0.84	0.69	0.54	0.41
December 31 book value - common	32.26	28.53	26.51	22.04	20.91
December 31 tangible book value - common [6]	21.94	19.12	16.96	15.85	14.68
December 31 market value (bid price) - common	41.59	34.27	42.06	37.65	25.42
Average Balances [1] [2] [3] [4] [5]					
Total assets	$ 11,091,320	$ 9,689,057	$ 8,196,229	$ 6,899,265	$ 6,085,687
Total loans [7]	7,690,190	6,997,771	5,881,284	4,814,005	4,179,839
Earning assets	10,015,771	8,736,367	7,335,702	6,180,050	5,464,829
Total deposits	8,782,634	7,569,482	6,368,751	5,438,217	4,806,503
Total stockholders' equity	1,569,615	1,343,861	1,110,524	884,664	753,724
Year-End Balances [1] [2] [3] [4] [5]					
Total assets	$ 12,457,254	$ 9,884,716	$ 9,367,478	$ 7,211,611	$ 6,761,003
Total loans [7]	8,468,347	7,229,245	6,758,415	5,142,574	4,703,716
Allowance for loan losses	80,284	80,552	75,032	66,037	62,453
Total deposits	9,839,956	7,754,593	7,172,530	5,556,498	5,289,647
Total stockholders' equity	1,786,437	1,408,260	1,303,463	901,657	850,509
Financial Ratios [1] [2] [3] [4] [5]					
Return on average assets	1.48%	1.64%	1.17%	1.17%	1.07%
Return on average stockholders' equity	10.48	11.84	8.65	9.16	8.67
Average earning assets to average assets	90.30	90.17	89.50	89.58	89.80
Allowance for loan losses as % of total loans	0.95	1.11	1.11	1.28	1.33
Dividend payout ratio	31.35	26.09	32.55	27.27	23.84
Average stockholders' equity to average assets	14.15	13.87	13.55	12.82	12.39
Tax equivalent yield on earning assets	4.78	4.79	4.53	4.32	4.25
Cost of supporting liabilities	1.09	0.79	0.51	0.43	0.45
Net interest margin on earning assets	3.69	4.00	4.02	3.89	3.80

[1] Effective April 17, 2015, the Corporation acquired 100 percent of C Financial. C Financial was headquartered in Columbus, Ohio and had 6 full service banking centers serving the Columbus, Ohio market. Pursuant to the merger agreement, shareholders of C Financial received $6.738 in cash for each share of C Financial stock held, resulting in a total purchase price of $14.5 million.

[2] Effective December 31, 2015, the Corporation acquired 100 percent of Ameriana. Ameriana was headquartered in New Castle, Indiana and had 13 full service banking centers in east central and central Indiana. Pursuant to the merger agreement, shareholders of Ameriana received .9037 shares of the Corporation's common stock for each share of Ameriana Bancorp common stock held. The Corporation issued approximately 2.8 million shares of common stock, which was valued at approximately $70.4 million.

[3] Effective May 19, 2017, the Corporation acquired 100 percent of Arlington Bank. Arlington Bank was headquartered in Columbus, Ohio and had 3 full service banking centers serving the Columbus, Ohio market. Pursuant to the merger agreement, each Arlington Bank shareholder received 2.7245 shares of the Corporation's common stock for each outstanding share of Arlington Bank common stock held. The Corporation issued approximately 2.1 million shares of common stock, which was valued at approximately $82.6 million.

[4] On November 21, 2016, the Corporation purchased 495,112 shares, or 12.1 percent, of IAB's outstanding common stock from an IAB shareholder for $19.8 million. Effective July 14, 2017, the Corporation acquired the remaining shares of IAB common stock. IAB was headquartered in Fort Wayne, Indiana and had 16 full service banking centers serving the Fort Wayne, Indiana market. Pursuant to the merger agreement, each IAB shareholder received 1.653 shares of the Corporation's common stock for each outstanding share of IAB common stock held. The Corporation issued approximately 6.0 million shares of common stock. The transaction value for the remaining shares of common stock, not owned by the Corporation, was approximately $238.8 million, resulting in a total purchase price of $258.6 million.

[5] On September 1, 2019, the Corporation acquired 100 percent of MBT. MBT was headquartered in Monroe, Michigan and had 20 banking centers serving the Monroe market. Pursuant to the merger agreement, each MBT shareholder received 0.275 shares of the Corporation's common stock for each outstanding share of MBT common stock held. The Corporation issued approximately 6.4 million shares of common stock, which was valued at approximately $229.9 million. The details of the acquisition can be found in NOTE 2. ACQUISITION of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

[6] Non-GAAP reconciliation can be found in the “Capital” section of Management’s Discussion and Analysis of Financial Condition and Results of Operations included as Item 7 of this Annual Report on Form 10-K.

[7] Includes loans held for sale.

PART II: ITEM 7. AND ITEM 7A. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

CRITICAL ACCOUNTING POLICIES

Generally accepted accounting principles require management to apply significant judgment to certain 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. For a complete discussion of the Corporation’s significant accounting policies, see NOTE 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

The following policies materially affect our reported earnings and financial condition and require significant judgments and estimates.

Business Combinations
Business combinations are accounted for under the acquisition method of accounting. Under the acquisition method, assets and liabilities of the business acquired are recorded at their estimated fair values as of the date of acquisition with any excess of the cost of the acquisition over the fair value of the net tangible and intangible assets acquired recorded as goodwill. Results of operations of the acquired business are included in the income statement from the date of acquisition.

Investment Securities
Available for sale securities are recorded at fair value on a recurring basis with the unrealized gains and losses, net of applicable income taxes, recorded in other comprehensive income. Realized gains and losses are recorded in earnings and the prior fair value adjustments are reclassified within stockholders' equity. Gains and losses on sales of securities are determined on the specific-identification method. Amortization of premiums and accretion of discounts are recorded as interest income from securities.

Available for sale and held to maturity securities are evaluated for OTTI at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. In determining OTTI, management considers many factors, including: (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions, and (4) whether the Corporation has the intent to sell the debt security or more likely than not, will be required to sell the debt security before its anticipated recovery. The assessment of whether an other-than-temporary decline exists involves a high degree of subjectivity and judgment and is based on the information available to management at a point in time.

When OTTI occurs, the amount of OTTI recognized in the income statement depends on whether the Corporation intends to sell the security or it is more likely than not that the Corporation will be required to sell the security before recovery of its amortized cost basis, less any recognized credit loss. If the intent is to sell, or it is more likely than not that the Corporation will be required to sell the security before recovery of its amortized cost basis, less any recognized credit loss, the OTTI shall be recognized in earnings equal to the entire difference between the investment’s amortized cost basis, less any recognized credit loss, and its fair value at the balance sheet date. If the intent is not to sell the security and it is not more likely than not that the Corporation will be required to sell the security before the recovery of its amortized cost basis less any recognized credit loss, the OTTI has been separated into the amount representing the credit loss and the amount related to all other factors. The amount of the total OTTI related to the credit loss is determined based on the present value of cash flows expected to be collected and is recognized in earnings. The amount of the total OTTI related to other factors is recognized in other comprehensive income, net of applicable income taxes. The previous amortized cost basis less the OTTI recognized in earnings becomes the new amortized cost basis of the investment.

Loans
The Corporation’s loan portfolio is carried at the principal amount outstanding, net of unearned income and principal charge-offs. Certain non-accrual, substantially delinquent and renegotiated loans classified as troubled debt restructures may be considered to be impaired in accordance with ASC 310, *Receivables*. Under ASC 310-10, a loan is impaired when, based on current information or events, it is probable all amounts due (principal and interest) according to the contractual terms of the loan agreement are uncollectible. Renegotiated consumer loans classified as troubled debt restructures are considered to be impaired. In applying the provisions of ASC 310-10, the Corporation considers all other investments in one-to-four family residential loans and consumer installment loans to be homogeneous and therefore excluded from separate identification for evaluation of impairment. Impaired loans are carried at the fair value of collateral if the loan is collateral dependent, or the present value of estimated future cash flows using the loan’s existing rate. A portion of the allowance for loan losses is allocated to impaired loans if the value of such loans is deemed to be less than the unpaid balance. If these allocations cause the allowance for loan losses to increase, such increase is reported as a component of the provision for loan losses. Loan losses are charged against the allowance when management believes the uncollectability of the loan is confirmed. The valuation would be considered Level 3, consisting of appraisals of underlying collateral and discounted cash flow analysis.

Interest income is accrued on the principal balances of loans. The accrual of interest is discontinued on a loan when, in management’s opinion, the borrower may be unable to meet payments as they become due. When the interest accrual is discontinued, all unpaid accrued interest is reversed against earnings when considered uncollectible. Interest income accrued in the prior year, if any, is charged to the allowance for loan losses. Interest income is subsequently recognized only to the extent cash payments are received and the loan is returned to accruing status. Certain loan fees and direct costs are being deferred and amortized as an adjustment of yield on the loans.

Loans Acquired in Business Combinations
Loans acquired in a business combination with evidence of credit deterioration since origination and for which it is probable that all contractually required payments will not be collected are considered to be purchased credit impaired. Evidence of credit quality deterioration as of purchase dates may include information such as past-due and nonaccrual status, borrower credit risk grade and recent loan to value percentages. Purchased credit-impaired loans are accounted for under the accounting guidance for loans and debt securities acquired with deteriorated credit quality (ASC 310-30). These loans are initially measured at fair value based upon expected cash flows without anticipation of prepayments and includes estimated future credit losses expected to be incurred over the life of the loans. As a result, related discounts are recognized subsequently through accretion based on the expected cash flows of the acquired loans. For purposes of applying ASC 310-30, loans acquired in business combinations are individually evaluated for the initial fair value measurement. Accordingly, allowances for credit losses related to these loans are not carried over at the acquisition date.

The difference between contractually required payments and the cash flows expected to be collected at acquisition is referred to as the nonaccretable portion of the fair value discount or premium. The accretable portion of the fair value discount or premium is the difference between the expected cash flows and the net present value of expected cash flows, with such difference accreted into earnings over the term of the loans. Acquired loans not accounted for under ASC 310-30 are accounted for under ASC 310-20, which allows the fair value adjustment to be accreted into income over the remaining life of the loans.

Allowance for Loan Losses
The allowance for loan losses is maintained to absorb losses inherent in the loan portfolio and is based on ongoing, quarterly assessments of the probable losses inherent in the loan portfolio. The allowance is increased by the provision for loan losses, which is charged against current operating results. Loan losses are charged against the allowance when management believes the uncollectability of a loan is confirmed. Subsequent recoveries, if any, are credited to the allowance. The Corporation’s strategy for credit risk management includes credit policies and underwriting criteria for all loans, as well as an overall credit limit for each customer significantly below legal lending limits. The strategy also emphasizes diversification on regional geographic and industry levels, regular credit quality reviews and management reviews of large credit exposures and loans experiencing deterioration of credit quality.

The Corporation’s methodology for assessing the appropriateness of the allowance consists of three key elements – the determination of the appropriate reserves for impaired loans accounted for under ASC 310-10, probable losses estimated from historical loss rates, and probable losses resulting from economic, environmental, qualitative or other deterioration above and beyond what is reflected in the first two components of the allowance.

Where appropriate, reserves are allocated to individual loans based on management’s estimate of the borrower’s ability to repay the loan given the availability of collateral, other sources of cash flow and legal options available to the Corporation. Loans individually evaluated for impairment are those deemed impaired in accordance with ASC 310-10, including commercial relationships greater than $500,000 that exhibit well defined credit weaknesses. Any allowances for impaired loans are measured based on the fair value of the underlying collateral, if collateral dependent, or the present value of expected future cash flows discounted at the loan’s effective interest rate. The Corporation evaluates the collectability of principal when assessing the need for a loss accrual. Historical loss rates are applied to other commercial loans not subject to specific reserve allocations.

The historical allocation for commercial loans graded pass are established by loan segments using loss rates based on the Corporation’s migration analysis. This migration analysis shows the loss rates for each segment of loans based on the loan grades at the beginning of the twelve month period. This loss rate is then applied to the current portfolio of loans in each respective loan segment.

Homogenous loans, such as consumer installment and residential mortgage loans, are not individually risk graded. Reserves are established for each segment of loans using loss rates based on charge-offs for the same period as the migration analysis used for commercial loans.

Historical loss allocations for commercial and consumer loans may be adjusted for significant factors that, in management’s judgment, reflect the impact of any current conditions on loss recognition. Factors which management considers in the analysis include the effects of the national and local economies, trends in loan growth and charge-off rates, changes in mix, concentration of loans in specific industries, asset quality trends (delinquencies, charge-offs and non-accrual loans), risk management and loan administration, changes in the internal lending policies and credit standards, examination results from bank regulatory agencies and the Corporation’s internal loan review.

Goodwill and Intangibles
For acquisitions, assets acquired, including identified intangible assets, and the liabilities assumed are required to be recorded at their fair value. These often involve estimates based on third party valuations, such as appraisals, or internal valuations based on discounted cash flow analysis or other valuation techniques that may include estimates of attrition, inflation, asset growth rates, or other relevant factors. In addition, the determination of the useful lives over which the intangible asset will be amortized is subjective. Intangible Assets that are subject to amortization, including core deposit intangibles, are being amortized on both the straight-line and accelerated basis over two to ten years. Intangible assets are periodically evaluated as to the recoverability of their carrying value.

Under ASC 350, *Intangibles – Goodwill and Other*, goodwill recorded must be reviewed for impairment on an annual basis, as well as on an interim basis if events or changes indicate that the asset might be impaired. An impairment loss must be recognized for any excess of carrying value over fair value of the goodwill. The Corporation completed its most recent annual goodwill impairment test on October 1, 2019 and concluded, based on current events and circumstances, goodwill is not impaired.

PART II: ITEM 7. AND ITEM 7A. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Derivative Instruments

Derivative instruments are carried at the fair value of the derivatives and reflects the estimated amounts that would have been received to terminate these contracts at the reporting date based upon pricing or valuation models applied to current market information.

As part of the asset/liability management program, the Corporation will utilize, from time to time, interest rate floors, caps or swaps to reduce its sensitivity to interest rate fluctuations. These are derivative instruments, which are recorded as assets or liabilities in the consolidated balance sheets at fair value. Changes in the fair values of derivatives are reported in the consolidated statements of operations or AOCI depending on the use of the derivative and whether the instrument qualifies for hedge accounting. The key criterion for the hedge accounting is that the hedged relationship must be highly effective in achieving offsetting changes in those cash flows that are attributable to the hedged risk, both at inception of the hedge and on an ongoing basis.

Derivatives that qualify for the hedge accounting treatment are designated as either: (1) a hedge of the fair value of the recognized asset or liability, or of an unrecognized firm commitment (a fair value hedge); or (2) a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability (a cash flow hedge). To date, the Corporation has only entered into a cash flow hedge. For cash flow hedges, changes in the fair values of the derivative instruments are reported in AOCI to the extent the hedge is effective. The gains and losses on derivative instruments that are reported in AOCI are reflected in the consolidated statements of income in the periods in which the results of operations are impacted by the variability of the cash flows of the hedged item. Generally, net interest income is increased or decreased by amounts receivable or payable with respect to the derivatives, which qualify for hedge accounting. At inception of the hedge, the Corporation establishes the method it uses for assessing the effectiveness of the hedging derivative and the measurement approach for determining the ineffective aspect of the hedge. The ineffective portion of the hedge, if any, is recognized in the consolidated statements of income. The Corporation excludes the time value expiration of the hedge when measuring ineffectiveness.

The Corporation offers interest rate derivative products (e.g. interest rate swaps) to certain of its high-quality commercial borrowers. This product allows customers to enter into an agreement with the Corporation to swap their variable rate loan to a fixed rate. These derivative products are designed to reduce, eliminate or modify the risk of changes in the borrower's interest rate or market price risk. The extension of credit incurred through the execution of these derivative products is subject to the same approvals and rigorous underwriting standards as the related traditional credit product. The Corporation limits its risk exposure to these products by entering into a mirror-image, offsetting swap agreement with a separate, well-capitalized and rated counterparty previously approved by the Credit and Asset Liability Committee. By using these interest rate swap arrangements, the Corporation is also better insulated from the interest rate risk associated with underwriting fixed-rate loans. These derivative contracts are not designated against specific assets or liabilities under ASC 815, *Derivatives and Hedging*, and, therefore, do not qualify for hedge accounting. The derivatives are recorded on the balance sheet at fair value and changes in fair value of both the customer and the offsetting swap agreements are recorded (and essentially offset) in non-interest income. The fair value of the derivative instruments incorporates a consideration of credit risk (in accordance with ASC 820, *Fair Value Measurements and Disclosures*), resulting in some volatility in earnings each period.

Income Taxes

Income tax in the consolidated statements of income includes deferred income tax provisions or benefits for all significant temporary differences in recognizing income and expenses for financial reporting and income tax purposes. The Corporation files consolidated income tax returns with its subsidiaries. The Corporation is generally no longer subject to U.S. federal, state and local income tax examinations by tax authorities for tax years before 2016.

The Corporation adopted the provisions of the ASC 740, *Income Taxes*, which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC 740 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. As a result of the implementation of ASC 740, the Corporation did not identify any uncertain tax positions that it believes should be recognized in the financial statements. The Corporation reviews income tax expense and the carrying value of deferred tax assets and liabilities quarterly; as new information becomes available, the balances are adjusted if applicable. The Corporation's policy is to recognize interest and penalties related to unrecognized tax benefits, if any, as a component of income tax expense.

RESULTS OF OPERATIONS – 2019

Net income available to stockholders for the year ended December 31, 2019 was $164.5 million compared to $159.1 million during the same period in 2018. Earnings per fully diluted common share for 2019 totaled $3.19 compared to $3.22 during the same period in 2018. Included in the 2019 results were $13.7 million, or $0.21 per share, of acquisition-related expenses associated with the acquisition of MBT. Details of the MBT acquisition, which occurred on September 1, 2019, are included within NOTE 2. ACQUISITION of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

As of December 31, 2019, total assets equaled $12.5 billion compared to $9.9 billion as of year end 2018, an increase of $2.6 billion, or 26.0 percent. The MBT acquisition resulted in $1.5 billion of the asset increase in 2019. The Corporation's total loan portfolio equaled $8.5 billion as of December 31, 2019, an increase of $1.2 billion, or 17.1 percent from December 31, 2018. Excluding the MBT loans acquired of $732.6 million, the Corporation's loan portfolio grew organically in 2019 by $506.5 million, or 7 percent.

The Corporation's allowance for loan losses totaled $80.3 million as of December 31, 2019, a slight decrease compared to $80.6 million as of December 31, 2018, due to declines in delinquent, impaired and non-accrual loans during 2019. Non-accrual loans decreased $10.2 million, or 39 percent during 2019 and the allowance provides 503.4 percent coverage of all non-accrual loans and 0.95 percent of total loans at December 31, 2019. Details of the Allowance for Loan Losses and non-performing loans are discussed within the "Loan Quality" and "Provision and Allowance for Loan Losses" sections of this Management's Discussion and Analysis of Financial Condition and Results of Operations.

PART II: ITEM 7. AND ITEM 7A. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Corporation's investment securities portfolio increased $963.5 million from December 31, 2018, and totaled $2.6 billion as of December 31, 2019. The MBT acquisition accounted for $212.2 million of the increase and excess liquidity from deposit growth was deployed in the investment portfolio, which also contributed to the increase from December 31, 2018. Details of the composition of the Corporation's investment securities portfolio are included within NOTE 4. INVESTMENT SECURITIES of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

The Corporation's other assets increased $52.4 million from December 31, 2018 due in part to implementation of new lease accounting guidance in ASU 2016-02, *Leases (Topic 842),* associated with the Corporation's leased banking center locations. As of December 31, 2019, the Corporation's right of use asset (recorded in other assets) was $20.7 million and the lease liability (recorded in other liabilities) was $21.4 million. The new lease accounting guidance and lease disclosures are discussed within NOTE 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES and NOTE 10. LEASES of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

Additionally, the Corporation's derivative hedge asset (recorded in other assets) and derivative hedge liability (recorded in other liabilities), related to the Corporation's interest rate swaps with commercial banking customers, which are simultaneously hedged by offsetting interest rate swaps with a third party, increased $15.8 million and $16.7 million, respectively from December 31, 2018. The increases were primarily due to a $214.5 million increase in outstanding notional balance and yield curve rates used for valuation purposes were lower at each term point as of December 31, 2019 compared to December 31, 2018. Details of the Corporation's derivative activity is detailed in NOTE 14. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITY of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

Total deposits of $9.8 billion increased $2.1 billion, or 26.9 percent, from December 31, 2018. The MBT acquisition on September 1, 2019 resulted in $1.1 billion of acquired deposits. Organic deposit growth of $979.4 million, or 12.6 percent, also contributed to the increase in 2019. Excluding deposits from the MBT acquisition, the largest increases were in demand, savings and time deposits. Total borrowings as of December 31, 2019 increased $61.7 million from December 31, 2018. FHLB advances increased $36.1 million, which included $10.9 million in FHLB advances from the MBT acquisition, while federal funds purchased decreased $49.0 million. Securities sold under repurchase agreements increased $74.4 million from December 31, 2018, as a result of the MBT acquisition, which accounted for a $94.8 million increase. Additional details related to the changes in deposits and borrowings are detailed within NOTE 11. DEPOSITS and NOTE 13. BORROWINGS of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K and the “Deposits and Borrowings” section of this Management’s Discussion and Analysis of Financial Condition and Results of Operations.

The Corporation continued to maintain all regulatory capital ratios in excess of the regulatory definition of “well-capitalized” as discussed in the “CAPITAL” section of this Management’s Discussion and Analysis of Financial Condition and Results of Operations.

RESULTS OF OPERATIONS – 2018

Net income available to stockholders was $159.1 million, an increase of $63.0 million, compared to $96.1 million during the same period in 2017. Earnings per fully diluted common share for 2018 totaled $3.22, an increase of $1.10 per share, or 51.9 percent, over $2.12 in 2017.

As of December 31, 2018, total assets equaled $9.9 billion compared to $9.4 billion as of year end 2017, an increase of 5.5 percent. The Corporation's total loan portfolio equaled $7.2 billion as of December 31, 2018, an increase of $470.8 million from December 31, 2017. The Corporation’s allowance for loan losses totaled $80.6 million as of December 31, 2018, compared to $75.0 million as of December 31, 2017. The allowance provides 308.1 percent coverage of all non-accrual loans and 1.11 percent of total loans at December 31, 2018. The Corporation's provision expense for the year ended December 31, 2018 was $7.2 million compared to $9.1 million during the same period in 2017. The provision expense in 2018 was primarily due to organic loan growth. Details of the Allowance for Loan Losses and non-performing loans are discussed within the “Loan Quality” and “Provision and Allowance for Loan Losses” sections of this Management’s Discussion and Analysis of Financial Condition and Results of Operations.

The Corporation's investment securities portfolio increased $72.0 million from December 31, 2017, and totaled $1.6 billion as of December 31, 2018. Details of the composition of the Corporation's investment securities portfolio are included within NOTE 4. INVESTMENT SECURITIES of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

As of December 31, 2018, total deposits equaled $7.8 billion, an increase of $582.1 million, or 8.1 percent, from December 31, 2017. The largest increases were in savings and demand deposits. Total borrowings decreased $163.4 million as of December 31, 2018, compared to December 31, 2017. Liquidity generated from organic deposit growth was used to fund loan and investment portfolio growth. Additionally, the excess liquidity was used to pay down Federal Home Loan Bank advances and Federal funds purchased, which decreased $99.4 million and $40.0 million, respectively. Additional details related to the changes in deposits and borrowings are detailed within NOTE 11. DEPOSITS and NOTE 13. BORROWINGS of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K and the “Deposits and Borrowings” section of this Management’s Discussion and Analysis of Financial Condition and Results of Operations.

The Corporation continued to maintain all regulatory capital ratios in excess of the regulatory definition of “well-capitalized” as discussed in the “CAPITAL” section of this Management’s Discussion and Analysis of Financial Condition and Results of Operations.

PART II: ITEM 7. AND ITEM 7A. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

NET INTEREST INCOME

Net interest income is the most significant component of the Corporation's earnings, comprising 80 percent of revenues for the year ended December 31, 2019. Net interest income and margin are influenced by many factors, primarily the volume and mix of earning assets, funding sources, and interest rate fluctuations. 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 table that follows 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 both 2019 and 2018, while 35 percent was used for 2017, adjusted for the TEFRA interest disallowance applicable to certain tax-exempt obligations. The lower effective income tax rate during the twelve months ended December 31, 2019 and 2018 when compared to the same periods in 2017 were primarily the result of the Tax Cuts and Jobs Act (TCJA) enacted on December 22, 2017. 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.

In 2019, the increases in net interest income and average earning assets were primarily attributable to the September 2019 MBT acquisition, in addition to, core organic loan and deposit growth and an increase in the investment securities portfolio. Asset yields decreased 1 basis point FTE and interest costs increased 34 basis points, resulting in an 35 basis point FTE decrease in net interest spread as compared to 2018. Asset yields decreased in 2019 primarily as a result of the Federal Reserve's discount rate decrease of 25 basis points at each of the Board's August, September and October 2019 meetings. Average earning assets increased $1.3 billion in 2019 compared to 2018 primarily as a result of organic loan growth and the MBT acquisition. In 2019, organic loan growth was $506.5 million, or 7 percent. The Corporation recognized fair value accretion income on purchased loans, which is included in interest income, of $12.0 million and $14.1 million, respectively, for the twelve months ended December 31, 2019 and 2018. Net interest margin, on a tax equivalent basis, decreased to 3.69 percent for 2019 compared to 4.00 percent in 2018.

Additional details of the Corporation's acquisitions, remaining loan fair value discount, accretable and nonaccretable yield can be found in NOTE 2. ACQUISITION, NOTE 6. ACCOUNTING FOR CERTAIN LOANS ACQUIRED IN A PURCHASE, and NOTE 22. INCOME TAX of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

In 2018, asset yields increased 26 basis points FTE and interest costs increased 35 basis points, resulting in an 9 basis point FTE decrease in net interest spread as compared to 2017. Asset yields increased in 2018 primarily as a result of the Federal Reserve's discount rate increases of 25 basis points at each of the Board's March, June, September and December 2018 meetings. Interest costs also increased as both core deposits and wholesale funding rates increased year-over-year. Average earning assets increased $1.4 billion in 2018 compared to 2017 primarily as a result of organic loan growth and a full year of acquisition related earning assets. The Corporation recognized fair value accretion income on purchased loans, which is included in interest income, of $14.1 million and $13.9 million, respectively, for the twelve months ended December 31, 2018 and 2017. Net interest margin, on a tax equivalent basis, decreased to 4.00 percent for 2018 compared to 4.02 percent in 2017.

PART II: ITEM 7. AND ITEM 7A. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Net interest margin is a function of net interest income and the level of average earning assets. The following tables presents the Corporation’s interest income, interest expense, and net interest income as a percent of average earning assets for the three-year period ending in 2019.

(Dollars in Thousands)	2019 Average Balance	2019 Interest Income / Expense	2019 Average Rate	2018 Average Balance	2018 Interest Income / Expense	2018 Average Rate	2017 Average Balance	2017 Interest Income / Expense	2017 Average Rate
Assets:									
Interest-bearing deposits	$ 211,683	$ 4,225	2.00%	$ 110,232	$ 2,241	2.03%	$ 75,417	$ 736	0.98%
Federal Reserve and Federal Home Loan Bank stock	25,645	1,370	5.34	24,538	1,234	5.03	20,921	894	4.27
Investment Securities: (1)									
Taxable	1,101,247	27,815	2.53	841,203	21,597	2.57	726,004	17,489	2.41
Tax-exempt (2)	987,006	40,070	4.06	762,623	32,290	4.23	632,076	32,891	5.20
Total investment securities	2,088,253	67,885	3.25	1,603,826	53,887	3.36	1,358,080	50,380	3.71
Loans held for sale	18,402	780	4.24	11,425	540	4.73	7,707	462	5.99
Loans: (3)									
Commercial	5,631,146	306,139	5.44	5,143,576	274,302	5.33	4,267,651	204,771	4.80
Real estate mortgage	811,188	37,782	4.66	733,709	33,549	4.57	679,284	30,267	4.46
Installment	701,459	38,071	5.43	640,310	34,110	5.33	573,100	28,204	4.92
Tax-exempt (2)	527,995	22,238	4.21	468,751	18,813	4.01	353,542	16,452	4.65
Total loans	7,690,190	405,010	5.27	6,997,771	361,314	5.16	5,881,284	280,156	4.76
Total earning assets	10,015,771	478,490	4.78%	8,736,367	418,676	4.79%	7,335,702	332,166	4.53%
Net unrealized gain (loss) on securities available for sale	17,676			(14,790)			4,360		
Allowance for loan losses	(81,000)			(77,444)			(70,380)		
Cash and cash equivalents	142,857			131,925			142,503		
Premises and equipment	99,343			94,567			97,446		
Other assets	896,673			818,432			686,598		
Total Assets	**$ 11,091,320**			**$ 9,689,057**			**$ 8,196,229**		
Liabilities:									
Interest-bearing deposits:									
Interest-bearing deposit accounts	$ 3,070,861	$ 33,921	1.10%	$ 2,319,081	$ 17,577	0.76%	$ 1,730,272	$ 5,817	0.34%
Money market deposit accounts	1,300,064	14,111	1.09	1,097,762	6,721	0.61	938,959	2,788	0.30
Savings deposits	1,242,468	9,464	0.76	1,065,031	5,230	0.49	844,825	734	0.09
Certificates and other time deposits	1,673,292	34,089	2.04	1,514,271	22,014	1.45	1,339,866	14,467	1.08
Total interest-bearing deposits	7,286,685	91,585	1.26	5,996,145	51,542	0.86	4,853,922	23,806	0.49
Borrowings	644,729	17,160	2.66	718,061	17,545	2.44	664,045	13,806	2.08
Total interest-bearing liabilities	7,931,414	108,745	1.37	6,714,206	69,087	1.03	5,517,967	37,612	0.68
Noninterest-bearing deposits	1,495,949			1,573,337			1,514,829		
Other liabilities	94,342			57,653			52,909		
Total Liabilities	**9,521,705**			**8,345,196**			**7,085,705**		
Stockholders' Equity	1,569,615			1,343,861			1,110,524		
Total Liabilities and Stockholders' Equity	**$ 11,091,320**	**108,745**		**$ 9,689,057**	**69,087**		**$ 8,196,229**	**37,612**	
Net Interest Income (FTE)		$ 369,745			$ 349,589			$ 294,554	
Net Interest Spread (FTE) (4)			**3.41%**			**3.76%**			**3.85%**
Net Interest Margin (FTE):									
Interest Income (FTE) / Average Earning Assets			**4.78%**			**4.79%**			**4.53%**
Interest Expense / Average Earning Assets			**1.09%**			**0.79%**			**0.51%**
Net Interest Margin (FTE) (5)			**3.69%**			**4.00%**			**4.02%**

(1) Average balance of securities is computed based on the average of the historical amortized cost balances without the effects of the fair value adjustment.

(2) Tax-exempt securities and loans are presented on a fully taxable equivalent basis, using a marginal tax rate of 21 percent for both 2019 and 2018, while using 35 percent for 2017. These totals equal $13,085, $10,732 and $17,270, respectively.

(3) Non-accruing 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.

NON-INTEREST INCOME

Non-interest income increased $10.2 million, or 13.4 percent, in 2019 compared to 2018. On September 1, 2019, the Corporation acquired MBT, which contributed $4.1 million to the 2019 increase in non-interest income. Details of the acquisition can be found in NOTE 2. ACQUISITION of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K. The increased customer base from the acquisition, in addition to organic growth, resulted in an increase in customer related line items of $10.4 million. The largest increases were recognized in derivative hedge fees, fiduciary and wealth management fees, card payment fees and service charges on deposit accounts which accounted for $9.7 million of the customer related line items increase.

Non-interest income increased $5.5 million, or 7.7 percent, in 2018 compared to 2017. Organic growth in 2018 coupled with a full year of the larger customer base from the 2017 acquisitions of Arlington Bank and IAB resulted in an increase in customer related line items of $4.5 million. The largest increases were recognized in service charges on deposit accounts, card payment fees and derivative hedge fees which accounted for $4.7 million of increase when compared to 2017.

Additionally, 2018 contained an increase in other income and gains on sales of available for sale securities of $3.3 million. The increases noted above were offset by a decrease of $2.5 million in gains on life insurance benefits when compared to 2017.

NON-INTEREST EXPENSES

Non-interest expense increased $26.8 million, or 12.2 percent, in 2019 compared to 2018. The most significant factor contributing to the increase was the acquisition of MBT, as the Corporation recorded $13.7 million of acquisition-related expenses, primarily consisting of $5.3 million of contract termination and core system conversion expenses, $5.2 million of employee severance and retention expenses and $1.6 million of professional and other outside services expense. In addition to the acquisition-related expenses, MBT operations, after the acquisition, resulted in non-interest expense of $6.2 million, of which $3.3 million was in salaries and employee benefits. Additionally, increases totaling $6.1 million were noted in equipment and software, outside data processing fees, and other real estate owned and foreclosure expense. Lastly, marketing expense increased $2.0 million, compared to 2018, primarily due to fair lending settlement expenses.

These increases were partially offset by a decrease in FDIC expense of $2.2 million in 2019 compared to 2018. The decrease was due to assessment credits being issued as a result of the FDIC insurance fund reaching the FDIC's target minimum reserve ratio.

Non-interest expenses increased $14.4 million, or 7.0 percent, in 2018 compared to 2017. With the Arlington Bank and IAB acquisitions occurring in May and July 2017, respectively, 2018 reflected the first full year of non-interest expenses associated with the significantly larger franchise and customer base. The largest increase was in salaries and employee benefits of $11.9 million, or 9.9 percent, over 2017 primarily due to the addition of Arlington Bank and IAB personnel. Other categories experiencing increases in 2018 compared to 2017 were net occupancy, equipment, marketing, outside data processing fees, and other expenses, which increased by $5.9 million. Additionally, intangible asset amortization increased $1.1 million due to amortization related to the Arlington Bank and IAB intangibles.

Partially offsetting the increases was a $4.6 million decrease in professional and other outside services primarily due to Arlington Bank and IAB contract termination, system conversion and professional expenses of $6.3 million recognized in 2017. The Corporation also realized a decrease in other real estate owned and foreclosure expenses of $433,000 when compared to 2017.

INCOME TAX EXPENSE

Income tax expense in 2019 was $29.3 million on pre-tax income of $193.8 million, or 15.1 percent. For 2018, income tax expense was $29.0 million on pre-tax income of $188.1 million, or 15.4 percent.

Additional income tax expense details are discussed within the “INCOME TAXES” section of this Management’s Discussion and Analysis of Financial Condition and Results of Operations and in NOTE 22. INCOME TAX of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

CAPITAL

Stockholders' Equity

On September 1, 2019, the Corporation acquired 100 percent of MBT. Pursuant to the merger agreement, each MBT shareholder received 0.275 shares of the Corporation's common stock for each outstanding share of MBT common stock held. The Corporation issued approximately 6.4 million shares of common stock, which was valued at approximately $229.9 million. Details regarding the MBT acquisition are discussed in NOTE 2. ACQUISITION of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

Stock Repurchase Program

On September 3, 2019, the Board of Directors of the Corporation approved a stock repurchase program of up to 3 million shares of the Corporation's outstanding common stock; provided, however, that the total aggregate investment in shares repurchased under the program may not exceed $75 million. On a share basis, the amount of common stock subject to the repurchase program represents approximately 5 percent of the Corporation's outstanding shares. The actual timing, number and share price of shares purchased under the repurchase program will be determined at the Corporation's discretion and will depend upon such factors as the market price of the stock, general market and economic conditions and applicable legal requirements. During 2019, the Corporation repurchased 516,016 shares of common stock for a total amount of $19.0 million at an average price of $36.90. All shares repurchased under the stock repurchase program were retired upon settlement.

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 and tier 1 capital 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 was effective for the Corporation on January 1, 2015. Basel III requires the Corporation and the Bank to maintain a minimum ratio of CET1 capital to risk weighted assets, as defined in the regulation. Under the Basel III rules, in order to avoid limitations on capital distributions, including dividends, the Corporation must hold a capital conservation buffer above the adequately capitalized CET1 capital to risk-weighted assets ratio. The capital conservation buffer was phased in from zero percent in 2015 to the fully-implemented 2.50 percent in 2019. Under Basel III, the Corporation and Bank elected to opt-out of including accumulated other comprehensive income in regulatory capital.

As of December 31, 2019, the Bank met all capital adequacy requirements to be considered well capitalized. There is no threshold for well capitalized status for bank holding companies. The Corporation's and Bank's actual and required capital ratios as of December 31, 2019 and December 31, 2018 were as follows:

			Prompt Corrective Action Thresholds			
	Actual		Adequately Capitalized		Well Capitalized	
December 31, 2019	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total risk-based capital to risk-weighted assets						
First Merchants Corporation	$ 1,400,617	14.29%	$ 783,946	8.00%	N/A	N/A
First Merchants Bank	1,267,649	12.87	787,753	8.00	$ 984,691	10.00%
Tier 1 capital to risk-weighted assets						
First Merchants Corporation	$ 1,255,333	12.81%	$ 587,960	6.00%	N/A	N/A
First Merchants Bank	1,187,365	12.06	590,815	6.00	$ 787,753	8.00%
Common equity tier 1 capital to risk-weighted assets						
First Merchants Corporation	$ 1,188,970	12.13%	$ 440,970	4.50%	N/A	N/A
First Merchants Bank	1,187,365	12.06	443,111	4.50	$ 640,049	6.50%
Tier 1 capital to average assets						
First Merchants Corporation	$ 1,255,333	10.54%	$ 476,383	4.00%	N/A	N/A
First Merchants Bank	1,187,365	9.99	475,564	4.00	$ 594,455	5.00%

			Prompt Corrective Action Thresholds			
	Actual		Adequately Capitalized		Well Capitalized	
December 31, 2018	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total risk-based capital to risk-weighted assets						
First Merchants Corporation	$ 1,177,725	14.61%	$ 644,871	8.00%	N/A	N/A
First Merchants Bank	1,092,602	13.46	649,531	8.00	$ 811,914	10.00%
Tier 1 capital to risk-weighted assets						
First Merchants Corporation	$ 1,032,173	12.80%	$ 483,653	6.00%	N/A	N/A
First Merchants Bank	1,012,050	12.47	487,148	6.00	$ 649,531	8.00%
Common equity tier 1 capital to risk-weighted assets						
First Merchants Corporation	$ 966,032	11.98%	$ 362,740	4.50%	N/A	N/A
First Merchants Bank	1,012,050	12.47	365,361	4.50	$ 527,744	6.50%
Tier 1 capital to average assets						
First Merchants Corporation	$ 1,032,173	10.91%	$ 378,379	4.00%	N/A	N/A
First Merchants Bank	1,012,050	10.70	379,397	4.00	$ 472,996	5.00%

Management believes that all of the above 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 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.

	December 31, 2019		December 31, 2018	
	First Merchants Corporation	First Merchants Bank	First Merchants Corporation	First Merchants Bank
Total Risk-Based Capital				
Total Stockholders' Equity (GAAP)	$ 1,786,437	$ 1,787,006	$ 1,408,260	$ 1,456,220
Adjust for Accumulated Other Comprehensive (Income) Loss [1]	(27,874)	(30,495)	21,422	19,031
Less: Preferred Stock	(125)	(125)	(125)	(125)
Add: Qualifying Capital Securities	66,363	—	66,141	—
Less: Disallowed Goodwill and Intangible Assets	(569,468)	(569,021)	(463,525)	(463,076)
Total Tier 1 Capital (Regulatory)	1,255,333	1,187,365	1,032,173	1,012,050
Qualifying Subordinated Debentures	65,000	—	65,000	—
Allowance for Loan Losses Includible in Tier 2 Capital	80,284	80,284	80,552	80,552
Total Risk-Based Capital (Regulatory)	$ 1,400,617	$ 1,267,649	$ 1,177,725	$ 1,092,602
Net Risk-Weighted Assets (Regulatory)	$ 9,799,329	$ 9,846,913	$ 8,060,882	$ 8,119,141
Average Assets	$ 11,909,571	$ 11,889,092	$ 9,459,477	$ 9,459,925
Total Risk-Based Capital Ratio (Regulatory)	14.29%	12.87%	14.61%	13.46%
Tier 1 Capital to Risk-Weighted Assets	12.81%	12.06%	12.80%	12.47%
Tier 1 Capital to Average Assets	10.54%	9.99%	10.91%	10.70%
Common Equity Tier 1 Capital Ratio				
Total Tier 1 Capital (Regulatory)	$ 1,255,333	$ 1,187,365	$ 1,032,173	$ 1,012,050
Less: Qualified Capital Securities	(66,363)	—	(66,141)	—
Common Equity Tier 1 Capital (Regulatory)	$ 1,188,970	$ 1,187,365	$ 966,032	$ 1,012,050
Net Risk-Weighted Assets (Regulatory)	$ 9,799,329	$ 9,849,913	$ 8,060,882	$ 8,119,141
Common Equity Tier 1 Capital Ratio (Regulatory)	12.13%	12.06%	11.98%	12.47%

[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.

PART II: ITEM 7. AND ITEM 7A. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Additionally, management believes the following tables are also meaningful when considering performance measures of the Corporation. Non-GAAP financial measures such as tangible common equity to tangible assets, return on average tangible capital and return on average tangible assets 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. Disclosure of these measures also allows analysts and banking regulators to assess our capital adequacy on these same bases.

Because these measures are not defined in GAAP or federal banking regulations, they are considered non-GAAP financial measures. 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.

The Corporation had a strong capital position as evidenced by the tangible common equity to tangible assets ratio of 10.16 percent at December 31, 2019, and 9.97 percent at December 31, 2018.

	Tangible Common Equity to Tangible Assets (non-GAAP)	
(Shares and Dollars in Thousands, Except Per Share Amounts)	December 31, 2019	December 31, 2018
Total Stockholders' Equity (GAAP)	$ 1,786,437	$ 1,408,260
Less: Cumulative preferred stock (GAAP)	(125)	(125)
Less: Intangible assets (GAAP)	(578,881)	(469,784)
Tangible common equity (non-GAAP)	$ 1,207,431	$ 938,351
Total assets (GAAP)	$ 12,457,254	$ 9,884,716
Less: Intangible assets (GAAP)	(578,881)	(469,784)
Tangible assets (non-GAAP)	$ 11,878,373	$ 9,414,932
Tangible common equity to tangible assets (non-GAAP)	10.16%	9.97%
Tangible common equity (non-GAAP)	$ 1,207,431	$ 938,351
Plus: Tax Benefit of intangibles (non-GAAP)	7,257	5,017
Tangible common equity, net of tax (non-GAAP)	$ 1,214,688	$ 943,368
Common Stock outstanding	55,368	$ 49,350
December 31 - tangible book value - common (non-GAAP)	$ 21.94	$ 19.12

The following table details and reconciles tangible earnings per share, return on tangible capital and tangible assets to traditional GAAP measures for the periods ended December 31, 2019 and 2018.

(Dollars in Thousands, Except Per Share Amounts)	December 31, 2019	December 31, 2018
Average goodwill (GAAP)	$ 478,143	$ 445,354
Average core deposit intangible (GAAP)	27,067	27,770
Average deferred tax on CDI (GAAP)	(5,588)	(5,703)
Intangible adjustment (non-GAAP)	$ 499,622	$ 467,421
Average stockholders' equity (GAAP)	$ 1,569,615	$ 1,343,861
Average cumulative preferred stock (GAAP)	(125)	(125)
Intangible adjustment (non-GAAP)	(499,622)	(467,421)
Average tangible capital (non-GAAP)	$ 1,069,868	$ 876,315
Average assets (GAAP)	$ 11,091,320	$ 9,689,057
Intangible adjustment (non-GAAP)	(499,622)	(467,421)
Average tangible assets (non-GAAP)	$ 10,591,698	$ 9,221,636
Net income available to common stockholders (GAAP)	$ 164,460	$ 159,139
CDI amortization, net of tax (GAAP)	4,736	5,307
Tangible net income available to common stockholders (non-GAAP)	$ 169,196	$ 164,446
Per Share Data:		
Diluted net income available to common stockholders (GAAP)	$ 3.19	$ 3.22
Diluted tangible net income available to common stockholders (non-GAAP)	$ 3.28	$ 3.32
Ratios:		
Return on average GAAP capital (ROE)	10.48%	11.84%
Return on average tangible capital	15.81%	18.77%
Return on average assets (ROA)	1.48%	1.64%
Return on average tangible assets	1.60%	1.78%

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.

LOAN QUALITY/PROVISION AND ALLOWANCE FOR LOAN LOSSES

The Corporation's primary lending focus is small business and middle market commercial, commercial real estate 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 Quality

The quality of the loan portfolio and amount of non-performing 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 December 31, 2019, non-performing loans totaled $16.8 million, a decrease of $10.5 million from December 31, 2018. Loans not accruing interest income totaled $15.9 million at December 31, 2019, a decrease of $10.2 million from the December 31, 2018 balance of $26.1 million. The Corporation's coverage ratio of allowance for loan losses to non-accrual loans increased from 308.1 percent at December 31, 2018 to 503.4 percent at December 31, 2019. See additional information in the “Provision and Allowance for Loan Losses” section of this Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Other real estate owned totaling $7.5 million increased $5.3 million during the twelve month period ending December 31, 2019. The increase in other real estate owned was driven by the transfer of a single commercial property with a carrying value of $5.9 million. For other real estate owned, current appraisals are obtained to determine fair value as management continues to aggressively market these real estate assets.

Accruing loans 90-days or more delinquent totaled $69,000 at December 31, 2019, a decrease of $1.8 million from the December 31, 2018 balance of $1.9 million. The decrease was primarily in real estate construction loans.

Impaired loans include loans deemed impaired according to the guidance set forth in ASC 310-10. Commercial loans under $500,000 and consumer loans, with the exception of troubled debt restructures, are not individually evaluated for impairment. A loan is deemed impaired when, based on current information or events, it is probable that all amounts due of principal and interest according to the contractual terms of the loan agreement will not be collected substantially within the contractual terms of the note. At December 31, 2019, impaired loans totaled $11.7 million, a decrease of $10.3 million from the December 31, 2018 balance of $22.0 million. At December 31, 2019, a specific allowance for losses was not deemed necessary for impaired loans totaling $7.4 million as there was no identified loss on these credits. An allowance of $689,000 was recorded for the remaining balance of these impaired loans totaling $4.4 million, and is included in the Corporation’s allowance for loan losses.

The Corporation's non-performing assets plus accruing loans 90-days or more delinquent and impaired loans are presented in the table below.

(Dollars in Thousands)	December 31, 2019	December 31, 2018
Non-performing assets:		
Non-accrual loans	$ 15,949	$ 26,148
Renegotiated loans	841	1,103
Non-performing loans (NPL)	16,790	27,251
Other real estate owned	7,527	2,179
Non-performing assets (NPA)	24,317	29,430
Loans 90-days or more delinquent and still accruing	69	1,855
NPAs and loans 90-days or more delinquent	$ 24,386	$ 31,285
Impaired loans	$ 11,709	$ 22,025

The non-accrual balances in the above table include troubled debt restructures totaling $709,000 and $705,000 as of December 31, 2019 and December 31, 2018, respectively.

The composition of non-performing assets plus accruing loans 90-days or more delinquent is reflected in the following table.

(Dollars in Thousands)	December 31, 2019	December 31, 2018
Non-performing assets and loans 90-days or more delinquent:		
Commercial and industrial loans	$ 1,259	$ 2,052
Agricultural production financing and other loans to farmers	183	679
Real estate loans		
Construction	7,191	11,606
Commercial and farmland	7,103	8,682
Residential	6,810	5,987
Home equity	1,795	1,815
Individual's loans for household and other personal expenditures	45	110
Public finance and other commercial loans	—	354
Non-performing assets and loans 90-days or more delinquent	$ 24,386	$ 31,285

Although the Corporation believes its underwriting and loan review procedures are appropriate for the various kinds of loans it makes, its results of operations and financial condition could be adversely affected in the event the quality of its loan portfolio declines. Deterioration in the economic environment including residential and commercial real estate values may result in increased levels of loan delinquencies and credit losses.

In 2019, net charge-offs totaled $3.1 million, an increase of $1.4 million and $2.9 million from 2018 and 2017, respectively. In 2019, the corporation incurred charge-offs exceeding $500,000 on two commercial relationships, with said charge-offs totaling $3.6 million. One recovery above $500,000, in the amount of $738,000, was recognized on one commercial relationship during 2019. In 2018, the corporation incurred charge-offs exceeding $500,000 on two commercial relationships totaling $1.3 million. Recoveries above $500,000, totaling $809,000, were recognized on one commercial relationship during the twelve month period ending December 31, 2018.

The Corporation's loan loss experience is presented in the table below for the years indicated.

(Dollars in Thousands)	2019	2018	2017
Allowance for loan losses:			
Beginning balance	$ 80,552	$ 75,032	$ 66,037
Charge-offs	6,621	7,983	5,028
Recoveries	3,553	6,276	4,880
Net charge-offs	3,068	1,707	148
Provision for loan losses	2,800	7,227	9,143
Ending balance	$ 80,284	$ 80,552	$ 75,032
Ratio of net charge-offs during the period to average loans outstanding during the period	0.04%	0.02%	0.00%
Ratio of allowance to non-accrual loans	503.4%	308.1%	261.2%

The distribution of the net charge-offs by collateral classification is provided in the following table for the years indicated.

(Dollars in Thousands)	December 31, 2019	December 31, 2018	December 31, 2017
Net charge-offs:			
Commercial and industrial loans	$ 239	$ (257)	$ (141)
Agricultural production financing and other farm loans	10	37	(66)
Real estate loans			
Construction	1,226	734	(31)
Commercial and farmland	1,160	(518)	(492)
Residential	95	586	162
Home equity	(69)	598	447
Individuals loans for household and other personal expenditures	168	447	269
Public finance and other commercial loans	239	80	
Total net charge-offs	$ 3,068	$ 1,707	$ 148

Provision and Allowance for Loan Losses

The allowance for loan losses is maintained through the provision for loan losses, which is a charge against earnings. Based on management’s judgment as to the appropriate level of the allowance for loan 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, including an internally administered loan "watch" list and independent loan reviews. The evaluation also takes into consideration identified credit problems, portfolio growth, management's judgment as to the impact of current economic conditions on the portfolio and the possibility of losses inherent in the loan portfolio that are not specifically identified. Additional details are discussed in NOTE 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

Management believes that the allowance for loan losses is adequate to cover incurred losses inherent in the loan portfolio at December 31, 2019. The process for determining the adequacy of the allowance for loan losses is critical to the Corporation’s financial results. It requires management to make difficult, subjective and complex judgments to estimate the effect of uncertain matters. The allowance for loan losses considers current factors, economic conditions and ongoing internal and external examination processes and will increase or decrease as deemed necessary to ensure the allowance remains adequate. In addition, the allowance as a percentage of charge-offs and nonperforming loans will change at different points in time based on credit performance, portfolio mix and collateral values. Management continually evaluates the commercial loan portfolio by including consideration of specific borrower cash flow analysis and estimated collateral values, types and amounts on non-performing loans, past and anticipated loan loss experience, changes in the composition of the loan portfolio, and the current condition and amount of loans outstanding.

In conformance with ASC 805 and ASC 820, purchased loans are recorded at the acquisition date fair value. Such loans are included in the allowance to the extent a specific impairment is identified that exceeds the fair value adjustment on an impaired loan. An allowance may also be necessary if the historical loss and environmental factor analysis indicates losses inherent in a purchased portfolio exceed the fair value adjustment on the portion of the purchased portfolio not deemed impaired.

At December 31, 2019, the allowance for loan losses was $80.3 million, a decrease of $268,000 from December 31, 2018. During the twelve month period ending December 31, 2019, specific reserves on impaired loans decreased $1.2 million, while the loss reserve for loans not deemed impaired increased $915,000. As a percent of total loans, the allowance was 0.95 percent at December 31, 2019, compared to 1.11 percent at December 31, 2018. The decline in the allowance as a percent of total loans was primarily due to an improvement in credit metrics and the acquisition of MBT, which resulted in $732.6 million of acquired loans that are excluded from the allowance for loan losses calculation.

Loans are generally secured by specific items of collateral, including real property and business assets. Allowable methods for determining the amount of impairment include estimating fair value using the fair value of the collateral for collateral dependent loans. If the impaired loan is identified as collateral dependent, then the fair value method of measuring the amount of impairment is utilized. This method requires obtaining a current independent appraisal of the collateral and applying a discount factor to the value. The fair value of real estate is determined based on appraisals by qualified licensed appraisers. The appraisers determine the value of the real estate by utilizing an income or market valuation approach. Updated “as is” or “liquidation value” appraisals are obtained as individual circumstances and/or market conditions warrant. Partially charged off loans measured for impairment based on their collateral value are generally not returned to performing status subsequent to receiving updated appraisals or restructure of the loan. If an appraisal is not available, the fair value may be determined by using a discounted 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.

Loans deemed impaired according to guidance set forth in ASC 310 are evaluated during problem loan meetings held within each reporting period by a special assets management team. Loan collateral and customer financial information are reviewed and the level of impairment is assessed to determine appropriate reserve and/or charge-off amounts. Loans or portions of loans are charged off when they are considered uncollectible. It is the Corporation’s policy to recognize losses promptly to prevent overstatement of assets, earnings and capital.

The following table summarizes loan loss reserves by collateral segment for the periods ended December 31, 2019 and 2018.

	December 31, 2019				
(Dollars in Thousands)	Commercial	Commercial Real Estate	Consumer	Residential	Total
Allowance balances:					
Individually evaluated for impairment	$ —	$ 231	$ —	$ 458	$ 689
Collectively evaluated for impairment	32,902	28,547	4,035	14,111	79,595
Total allowance for loan losses	$ 32,902	$ 28,778	$ 4,035	$ 14,569	$ 80,284

	December 31, 2018				
(Dollars in Thousands)	Commercial	Commercial Real Estate	Consumer	Residential	Total
Allowance balances:					
Individually evaluated for impairment	$ —	$ 1,435	$ 1	$ 436	$ 1,872
Collectively evaluated for impairment	32,657	28,174	3,963	13,886	78,680
Total allowance for loan losses	$ 32,657	$ 29,609	$ 3,964	$ 14,322	$ 80,552

The historical loss allocation for loans not deemed impaired according to ASC 450 is the product of the volume of loans within the non-impaired criticized and non-criticized risk grade classifications, each segmented by call code, and the historical loss factor for each respective classification and call code segment. The historical loss factors are based upon actual loss experience within each risk and call code classification. The historical look back period for non-criticized loans is the most recent rolling-four-quarter average and aligns with the look back period for non-impaired criticized loans. This look back period includes all charge-offs from the most recent seven quarters. The loss factor computation for this allocation includes a segmented historical loss migration analysis of loans, by risk grade, to charge-off.

In addition to the specific reserves and historical loss components of the allowance, consideration is given to various environmental factors to help ensure that losses inherent in the portfolio are reflected in the allowance for loan losses. The environmental component adjusts the historical loss allocations for commercial and consumer loans to reflect relevant current conditions that have an impact on loss recognition. Environmental factors that management reviews in the analysis include: National and local economic trends and conditions; trends in growth in the loan portfolio and growth in higher risk areas; levels of, and trends in, delinquencies and non-accruals; experience and depth of lending management and staff; adequacy of, and adherence to, lending policies and procedures including those for underwriting; industry concentrations of credit; and adequacy of risk identification systems and controls through the internal loan review and internal audit processes. Each environmental factor receives an individual qualitative allocation that reflects losses inherent in the portfolio that are not reflected in the historical loss components of the allowance. As the economic environment has seen improvement during recent years, management believes losses inherent in the portfolio may not be immediately apparent for specific identification.

The Corporation’s primary market areas for lending are central and northern Indiana, northeastern Illinois, central Ohio, and southeast Michigan. When evaluating the adequacy of the allowance, consideration is given to this regional geographic concentration and the closely associated effect changing economic conditions have on the Corporation’s customers. The allowance for loan losses at December 31, 2019 is reflective of both the banking environment within the Corporation’s footprint and the Corporation’s recent loan and loss trends.

Management continually evaluates the commercial loan portfolio by including consideration of specific borrower cash flow analysis and estimated collateral values, types and amounts on non-performing loans, past and anticipated loan 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 loan 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.

Beginning with the first quarter of 2020, the Corporation will adopt Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This new guidance was issued to address concerns that current generally accepted accounting principles (GAAP) restricts the ability to record credit losses that are expected, but do not yet meet the “probable” threshold by replacing the current “incurred loss” model for recognizing credit losses with an “expected life of loan loss” model referred to as the Current Expected Credit Loss (CECL) model.

Under the CECL model, certain financial assets carried at amortized cost, such as loans held for investment and held-to-maturity debt securities, are required to be presented at the net amount expected to be collected. The measurement of expected credit losses is to be based on information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. This measurement will take place at the time the financial asset is first added to the balance sheet and periodically thereafter. This differs significantly from the “incurred loss” model required under current GAAP, which delays recognition until it is probable a loss has been incurred. The change could materially affect how the allowance for loan losses is determined and cause a charge to earnings through the provision for loan losses. Such charge would adversely affect the financial condition of the Corporation.

The Corporation has developed models that satisfy the requirements of the new standard which will be governed by a system of internal controls and a cross-functional working group consisting of accounting, finance, and credit administration personnel. The loan portfolio was pooled into ten loan segments with similar risk characteristics for which the probability of default/loss given default methodology will be applied. The Corporation intends to utilize a one-year economic forecast period then revert to historical macroeconomic levels for the remaining life of the portfolio. A baseline macroeconomic scenario, along with three other scenarios, will be used to develop a range of estimated credit losses for which to determine the best estimate within.

The Corporation will record a one-time cumulative-effect adjustment to retained earnings, net of income taxes, on the consolidated balance sheet as of the beginning of the first quarter of 2020. The allowance will increase by 55-65 percent because it will cover expected credit losses over the life of the loan portfolio, which approximates four years, and it includes all purchased loans that were previously excluded from the allowance for loan losses calculation. CECL also requires the establishment of a reserve for potential losses from unfunded commitments that is recorded in other liabilities, separate from allowance for credit losses, which is estimated to be approximately $18 million.

GOODWILL

Goodwill is reviewed at least annually for impairment. The Corporation completed its most recent annual goodwill impairment test on October 1, 2019 and concluded, based on current events and circumstances, goodwill is not impaired. The MBT acquisition on September, 1, 2019 resulted in $98.6 million of goodwill, which includes an addition of $719,000 recorded in the fourth quarter of 2019 as a measurement period adjustment. There were no changes in goodwill for the year ending December 31, 2018. Details regarding the MBT acquisition are discussed in NOTE 2. ACQUISITION of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

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 $1.8 billion at December 31, 2019, an increase of $647.8 million, or 56.7 percent, from December 31, 2018. 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 $9.9 million at December 31, 2019. 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 December 31, 2019, total borrowings from the FHLB were $351.1 million. The Bank has pledged certain mortgage loans and investments to the FHLB. The total available remaining borrowing capacity from the FHLB at December 31, 2019 was $638.7 million.

The required payments related to operating leases and borrowings at December 31, 2019 are as follows:

(Dollars in Thousands)	2020	2021	2022	2023	2024	2025 and after	ASC 805 fair value adjustments at acquisition	Total
Operating leases	$ 3,434	$ 3,157	$ 3,033	$ 2,654	$ 2,585	$ 10,198	$ —	$ 25,061
Federal funds purchased	55,000	—	—	—	—	—	—	55,000
Securities sold under repurchase agreements	187,946	—	—	—	—	—	—	187,946
Federal Home Loan Bank advances	41,370	55,097	95,097	115,097	97	44,314	—	351,072
Subordinated debentures and term loans	—	—	—	—	—	142,322	(3,637)	138,685
Total	$ 287,750	$ 58,254	$ 98,130	$ 117,751	$ 2,682	$ 196,834	$ (3,637)	$ 757,764

For further details related to the Corporation's borrowings, see NOTE 13. BORROWINGS of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

Additionally, the Corporation has entered into a number of long-term leasing arrangements to support ongoing activities. Details related to the Corporation's lease obligations are discussed within NOTE 10. LEASES of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report of Form 10-K.

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 the 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 December 31, 2019 are as follows:

(Dollars in Thousands)	December 31, 2019
Amounts of Commitments:	
Loan commitments to extend credit	$ 3,005,064
Standby letters of credit	30,200
	$ 3,035,264

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 DISCLOSURES 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 December 31, 2019 remained adequate to meet the Corporation's primary goal of achieving optimum interest margins while avoiding undue interest rate risk.

The following table presents the Corporation's interest rate sensitivity analysis as of December 31, 2019.

	December 31, 2019				
(Dollars in Thousands)	**1-180 Days**	**181-365 Days**	**1-5 Years**	**Beyond 5 Years**	**Total**
Rate-Sensitive Assets:					
Interest-bearing deposits	$ 118,263	$ —	$ —	$ —	$ 118,263
Investment securities	148,834	112,748	555,860	1,778,621	2,596,063
Loans	4,809,785	538,928	1,894,883	1,224,751	8,468,347
Federal Home Loan Bank stock	—	—	28,736	—	28,736
Total rate-sensitive assets	$ 5,076,882	$ 651,676	$ 2,479,479	$ 3,003,372	$ 11,211,409
Rate-Sensitive Liabilities:					
Interest-bearing deposits	$ 7,087,907	$ 811,653	$ 191,739	$ 12,261	$ 8,103,560
Federal funds purchased	55,000	—	—	—	55,000
Securities sold under repurchase agreements	187,946	—	—	—	187,946
Federal Home Loan Bank advances	20,100	21,200	275,000	34,772	351,072
Subordinated debentures and term loans	68,685	—	70,000	—	138,685
Total rate-sensitive liabilities	$ 7,419,638	$ 832,853	$ 536,739	$ 47,033	$ 8,836,263
Interest rate sensitivity gap by period	$ (2,342,756)	$ (181,177)	$ 1,942,740	$ 2,956,339	
Cumulative rate sensitivity gap	$ (2,342,756)	$ (2,523,933)	$ (581,193)	$ 2,375,146	
Cumulative rate sensitivity gap ratio					
at December 31, 2019	68.4%	69.4%	93.4%	126.9%	
at December 31, 2018	74.8%	72.4%	91.1%	126.7%	

The Corporation had a cumulative negative gap of $2.5 billion in the one-year horizon at December 31, 2019, or 20.3 percent of total assets.

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.

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 December 31, 2019, 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. Total rate movements (beginning point minus ending point) to each of the various driver rates utilized by management have the following results:

	At December 31, 2019	
	RISING	**FALLING**
Driver Rates	**(200 Basis Points)**	**(100 Basis Points)**
Prime	200	(100)
Federal Funds	200	(100)
One-Year CMT	200	(100)
Three-Year CMT	200	(100)
Five-Year CMT	200	(100)
CD's	200	(24)
FHLB	200	(89)

Results for the base, 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 December 31, 2019. The net interest income shown 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.

		At December 31, 2019	
		RISING	FALLING
(Dollars in Thousands)	Base	(200 Basis Points)	(100 Basis Points)
Net Interest Income	$ 368,024	$ 389,367	$ 355,191
Variance from Base		$ 21,343	$ (12,833)
Percent of Change from Base		5.8%	(3.5)%

The comparative rising 200 basis points and falling 100 basis points scenarios below, as of December 31, 2018, 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. In addition, total rate movements (beginning point minus ending point) to each of the various driver rates utilized by management in the base simulation are as follows:

	At December 31, 2018	
	RISING	FALLING
Driver Rates	(200 Basis Points)	(100 Basis Points)
Prime	200	(100)
Federal Funds	200	(100)
One-Year CMT	200	(100)
Three-Year CMT	200	(100)
Five-Year CMT	200	(100)
CD's	200	(25)
FHLB	200	(100)

Results for the base, 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 December 31, 2018. The net interest income shown 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.

		At December 31, 2018	
		RISING	FALLING
(Dollars in Thousands)	Base	(200 Basis Points)	(100 Basis Points)
Net Interest Income	$ 344,064	$ 371,221	$ 330,990
Variance from Base		$ 27,157	$ (13,074)
Percent of Change from Base		7.9%	(3.8)%

PART II: ITEM 7. AND ITEM 7A. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

EARNING ASSETS

Earning assets increased by $2.3 billion during the twelve months ended December 31, 2019. The September 1, 2019 acquisition of MBT contributed to increases in several categories. Additional details of the MBT acquisition can be found in NOTE 2. ACQUISITION of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

Interest-bearing time deposits and investments securities increased $81.3 million and $963.5 million, respectively, of which the MBT acquisition accounted for $281.2 million and $212.2 million of the increase in interest-bearing time deposits and investment securities, respectively. During 2019, the Corporation deployed excess liquidity in the investment securities portfolio.

Loans and loans held for sale increased $1.2 billion, as the MBT acquisition contributed $732.6 million to the loan growth. In 2019, organic loan growth was $506.5 million, or 7 percent. The largest loan segments that experienced increases were commercial and industrial, construction real estate and commercial and farmland real estate loans. No loan segments experienced decreases. Additional details of the changes in the Corporation's loan porfolio are discussed within NOTE 5. LOANS AND ALLOWANCE of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

Federal Home Loan Bank stock increased $4.1 million, all of which was due to the acquisition of MBT.

The following table presents the earning asset mix as of December 31, 2019 and 2018.

(Dollars in Thousands)	December 31, 2019	December 31, 2018
Interest-bearing time deposits	$ 118,263	$ 36,963
Investment securities available for sale	1,790,025	1,142,195
Investment securities held to maturity	806,038	490,387
Loans held for sale	9,037	4,778
Loans	8,459,310	7,224,467
Federal Home Loan Bank stock	28,736	24,588
	$ 11,211,409	$ 8,923,378

DEPOSITS AND BORROWINGS

The table below reflects the level of deposits and borrowed funds (federal funds purchased, repurchase agreements, FHLB advances, subordinated debentures and term loans) at December 31, 2019 and 2018.

(Dollars in Thousands)	December 31, 2019	December 31, 2018
Deposits	$ 9,839,956	$ 7,754,593
Federal funds purchased	55,000	104,000
Securities sold under repurchase agreements	187,946	113,512
Federal Home Loan Bank advances	351,072	314,986
Subordinated debentures and term loans	138,685	138,463
	$ 10,572,659	$ 8,425,554

Deposits increased $2.1 billion from December 31, 2018. The MBT acquisition on September 1, 2019 resulted in $1.1 billion of acquired deposits. Additional details regarding the acquisition are discussed within NOTE 2. ACQUISITION of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

Deposit increases, excluding deposits from the MBT acquisition, were noted in demand, savings and time deposits of $667.3 million, $216.2 million and $127.7 million, respectively, as compared to the same period in 2018. Offsetting these increases was a decrease in brokered certificates of deposits of $31.8 million.

FHLB advances increased $36.1 million, which included $10.9 million in FHLB advances from the MBT acquisition, while federal funds purchased decreased $49.0 million. Liquidity generated from an increase in deposits and FHLB advances was used to fund organic loan growth and investment securities purchases, and also to pay down wholesale funding sources.

Securities sold under repurchase agreements increased $74.4 million from December 31, 2018, as a result of the MBT acquisition, which accounted for a $94.8 million increase.

The Corporation has leveraged its capital position with FHLB advances, as well as repurchase agreements, which are pledged against acquired investment securities as collateral for the borrowings. Further discussion regarding FHLB advances is included in Management’s Discussion and Analysis of Financial Condition and Results of Operations under the heading “LIQUIDITY”. Additionally, the interest rate risk is included as part of the Corporation’s interest simulation discussed in this Management’s Discussion and Analysis of Financial Condition and Results of Operations under the heading “INTEREST SENSITIVITY AND DISCLOSURES ABOUT MARKET RISK”.

INCOME TAXES

Income tax expense totaled $29.3 million for 2019 compared to $29.0 million for 2018. The Corporation's federal statutory income tax rate for 2019 is 21 percent and its state tax rate varies from 0 to 9.5 percent depending on the state in which the subsidiary company is domiciled. The Corporation's effective tax rate is lower than the blended effective statutory federal and state rates primarily due to the Corporation's income on tax-exempt securities and loans, income generated by the subsidiaries domiciled in a state with no state or local income tax, income tax credits generated from investments in affordable housing projects, tax-exempt earnings from bank-owned life insurance contracts and reduced state taxes, resulting from the effect of state income apportionment. The reconciliation of federal statutory to actual tax expense is shown in NOTE 22. INCOME TAX of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

The Corporation's tax asset, deferred and receivable decreased from $23.7 million at December 31, 2018 to $12.2 million at December 31, 2019. The largest component is the Corporation's net deferred tax asset, which decreased from $21.4 million at December 31, 2018 to $8.3 million at December 31, 2019. The $13.1 million decrease in the Corporation's net deferred tax asset was primarily due to an increase in deferred tax liabilities. The largest deferred tax liability increase was associated with the tax effect of the change in unrealized gains and losses on available for sale securities of $12.0 million. Additionally, the net change in deferred taxes associated with accounting for loans increased the net deferred tax liability by $1.9 million. Offsetting the increases to deferred tax liabilities was a deferred tax asset increase associated with deferred compensation of $2.3 million.

INFLATION

Changing prices of goods, services and capital affect the financial position of every business enterprise. The level of market interest rates and the price of funds loaned or borrowed fluctuate due to changes in the rate of inflation and various other factors, including government monetary policy.

Fluctuating interest rates affect the Corporation's net interest income and loan volume. As the inflation rate increases, the purchasing power of the dollar decreases. Those holding fixed-rate monetary assets incur a loss, while those holding fixed-rate monetary liabilities enjoy a gain. The nature of a financial holding company's operations is such that there will generally be an excess of monetary assets over monetary liabilities, and, thus, a financial holding company will tend to suffer from an increase in the rate of inflation and benefit from a decrease.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

The quantitative and qualitative disclosures about market risk information are presented in the “INTEREST SENSITIVITY AND DISCLOSURES ABOUT MARKET RISK” section of Management's Discussion and Analysis of Financial Condition and Results of Operations included as Item 7 of this Annual Report on Form 10-K.

PART II: ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Report of Independent Registered Public Accounting Firm

To the Stockholders, Board of Directors and Audit Committee
First Merchants Corporation
Muncie, Indiana

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of First Merchants Corporation (Corporation) as of December 31, 2019 and 2018, the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes (collectively referred to as the "financial statements"). In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Corporation's internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission* (COSO) and our report dated February 28, 2020, expressed an unqualified opinion thereon.

Basis for Opinion

These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on the Corporation's financial statements based on our audits.

We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Corporation in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of the critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing a separate opinion on the critical audit matters or on the account or disclosures to which they relate.

Allowance for Loan Losses

As described in Note 5 to the consolidated financial statements, the Corporation's consolidated allowance for loan and lease losses (ALLL) was $80.3 million at December 31, 2019. The ALLL is an estimate of probable credit losses related to specifically identified loans and for losses inherent in the portfolio that have been incurred as of the balance sheet date. The determination of the ALLL requires management to exercise significant judgment and consider numerous subjective factors, including determining qualitative factors utilized to adjust historical loss rates, risk grading loans, identifying loan impairments, among others. As disclosed by management, different assumptions and conditions could result in a materially different amount for the ALLL.

We identified the valuation of the ALLL as a critical audit matter. Auditing the allowance for loan losses involves a high degree of subjectivity in evaluating management's estimates, such as evaluating management's assessment of economic conditions and other environmental factors used to adjust historical loss rates, evaluating the adequacy of specific allowances associated with impaired loans and assessing the appropriateness of loan grades.

PART II: ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

How We Addressed the Matter in Our Audit

The primary procedures we performed to address this critical audit matter included:

Testing the design and operating effectiveness of controls, including those related to technology, over the Corporation's ALLL including data completeness and accuracy, classifications of loans by loan segment, historical loss data, the calculation of a loss rate, the establishment of qualitative adjustments, grading and risk classification of loans and establishment of specific reserves on impaired loans including purchased loans that have experienced further credit deterioration and management's review controls over the ALLL balance as a whole including attending internal Corporation credit quality discussions and analysis;

- Testing of completeness and accuracy of the information utilized in the ALLL;
- Testing the model's computational accuracy;
- Evaluating the qualitative adjustment to the historical loss rates, including assessing the basis for the adjustments and the reasonableness of the significant assumptions;
- Testing the internal loan review functions and evaluating the accuracy of loan grades;
- Evaluating the appropriateness of loan grades and assessing the reasonableness of specific reserves on impaired loans;
- Evaluating the overall reasonableness of assumptions used by considering the past performance of the Corporation and evaluating to trends identified within peer groups.
- Reviewing subsequent events and considering whether they support or contradict the Corporation's assessment.

Acquisition

As described in Note 2 to the consolidated financial statements, the Corporation completed the acquisition of MBT and its wholly owned subsidiary Monroe Bank & Trust during the year ended December 31, 2019 with an acquisition price of $229.9 million, including the recognition of $98.6 million of Goodwill. As part of the acquisition, management determined that the acquisition qualified as a business and accordingly all identifiable assets and liabilities acquired were valued at fair value as part of the purchase price allocation as of the acquisition date. The identification and valuation of such acquired assets and assumed liabilities required management to exercise significant judgment and consider the use of outside vendors to estimate the fair value allocations.

We identified the acquisition and the valuation of acquired assets and assumed liabilities a critical audit matter. Auditing the acquisition transaction involved a high degree of subjectivity in evaluating management's operational assumptions, fair value estimates, purchase price allocations and assessing the appropriateness of outside vendor valuation models.

How We Addressed the Matter in Our Audit

The primary procedures we performed to address this critical audit matter included:

- Obtaining and reviewing executed Plan and Agreement of Merger documents to gain an understanding of the underlying terms of the consummated acquisition;
- Obtaining and reviewing management's reconciliation procedures of significant accounts and testing of completion procedures performed and asset/liability identification considerations made;
- Testing management's computation of purchase price and determination of goodwill recognized focusing on the completeness and accuracy of the balance sheet acquired and related fair value purchase price allocations made to identified assets acquired and liabilities assumed;
- Obtaining and reviewing significant outside vendor valuation estimates and challenging management's review of the appropriateness of the valuations assessed/allocated to assets acquired and liabilities assumed; including but not limited to, testing all critical inputs, including assumptions applied and valuation models utilized by the outside vendors;
- Utilization of our Forensics & Valuation Services group to assist with testing and challenging the related fair value purchase price allocations made to identified assets acquired and liabilities assumed;
- Reviewing and evaluating the adequacy of the disclosures made in the footnotes of the Corporation's SEC filings.

BKD, LLP

We have served as the Corporation's auditor since at least 1982; however, an earlier year cannot be reliably determined.

Indianapolis, Indiana
February 28, 2020

PART II: ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands, Except Share Data)	**December 31, 2019**	**December 31, 2018**
ASSETS		
Cash and cash equivalents	$ 177,201	$ 139,247
Interest-bearing time deposits	118,263	36,963
Investment securities available for sale	1,790,025	1,142,195
Investment securities held to maturity (fair value of $827,566 and $489,217)	806,038	490,387
Loans held for sale	9,037	4,778
Loans	8,459,310	7,224,467
Less: Allowance for loan losses	(80,284)	(80,552)
Net loans	8,379,026	7,143,915
Premises and equipment	113,055	93,420
Federal Home Loan Bank stock	28,736	24,588
Interest receivable	48,901	40,881
Other intangibles	34,962	24,429
Goodwill	543,918	445,355
Cash surrender value of life insurance	288,206	224,939
Other real estate owned	7,527	2,179
Tax asset, deferred and receivable	12,165	23,668
Other assets	100,194	47,772
TOTAL ASSETS	$ 12,457,254	$ 9,884,716
LIABILITIES		
Deposits:		
Noninterest-bearing	$ 1,736,396	$ 1,447,907
Interest-bearing	8,103,560	6,306,686
Total Deposits	9,839,956	7,754,593
Borrowings:		
Federal funds purchased	55,000	104,000
Securities sold under repurchase agreements	187,946	113,512
Federal Home Loan Bank advances	351,072	314,986
Subordinated debentures and term loans	138,685	138,463
Total Borrowings	732,703	670,961
Interest payable	6,754	5,607
Other liabilities	91,404	45,295
Total Liabilities	10,670,817	8,476,456
COMMITMENTS AND CONTINGENT LIABILITIES		
STOCKHOLDERS' EQUITY		
Cumulative Preferred Stock, $1,000 par value, $1,000 liquidation value:		
Authorized - 600 shares		
Issued and outstanding - 125 shares	125	125
Common Stock, $0.125 stated value:		
Authorized - 100,000,000 shares		
Issued and outstanding - 55,368,482 and 49,349,800 shares	6,921	6,169
Additional paid-in capital	1,054,997	840,052
Retained earnings	696,520	583,336
Accumulated other comprehensive income (loss)	27,874	(21,422)
Total Stockholders' Equity	1,786,437	1,408,260
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 12,457,254	$ 9,884,716

See notes to consolidated financial statements.

PART II: ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF INCOME

(Dollars in Thousands, Except Share Data)	December 31, 2019	December 31, 2018	December 31, 2017
INTEREST INCOME			
Loans receivable:			
Taxable	$ 382,772	$ 342,501	$ 263,704
Tax exempt	17,568	14,862	10,694
Investment securities:			
Taxable	27,815	21,597	17,489
Tax exempt	31,655	25,509	21,379
Deposits with financial institutions	4,225	2,241	736
Federal Home Loan Bank stock	1,370	1,234	894
Total Interest Income	465,405	407,944	314,896
INTEREST EXPENSE			
Deposits	91,585	51,542	23,806
Federal funds purchased	251	718	561
Securities sold under repurchase agreements	1,424	762	477
Federal Home Loan Bank advances	7,176	7,832	5,196
Subordinated debentures and term loans	8,309	8,233	7,572
Total Interest Expense	108,745	69,087	37,612
NET INTEREST INCOME	356,660	338,857	277,284
Provision for loan losses	2,800	7,227	9,143
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	353,860	331,630	268,141
OTHER INCOME			
Service charges on deposit accounts	22,951	20,950	18,722
Fiduciary and wealth management fees	17,562	14,906	14,682
Card payment fees	20,243	18,035	16,120
Net gains and fees on sales of loans	7,891	7,029	7,564
Derivative hedge fees	5,357	2,493	1,978
Other customer fees	1,664	1,860	1,743
Increase in cash surrender value of life insurance	4,518	4,020	3,906
Gains on life insurance benefits	19	198	2,671
Net realized gains on sales of available for sale securities	4,415	4,269	2,631
Other income	2,068	2,699	992
Total Other Income	86,688	76,459	71,009
OTHER EXPENSES			
Salaries and employee benefits	144,037	131,704	119,812
Net occupancy	19,584	18,341	16,976
Equipment	16,218	14,334	13,090
Marketing	6,650	4,681	3,739
Outside data processing fees	16,476	13,215	12,242
Printing and office supplies	1,445	1,425	1,283
Intangible asset amortization	5,994	6,719	5,647
FDIC assessments	717	2,920	2,564
Other real estate owned and foreclosure expenses	2,428	1,470	1,903
Professional and other outside services	15,410	8,176	12,757
Other expenses	17,804	16,966	15,543
Total Other Expenses	246,763	219,951	205,556
INCOME BEFORE INCOME TAX	193,785	188,138	133,594
Income tax expense	29,325	28,999	37,524
NET INCOME AVAILABLE TO COMMON STOCKHOLDERS	$ 164,460	$ 159,139	96,070
NET INCOME AVAILABLE TO COMMON STOCKHOLDERS PER SHARE DATA:			
Basic	$ 3.20	$ 3.23	$ 2.13
Diluted	$ 3.19	$ 3.22	$ 2.12

See notes to consolidated financial statements.

PART II: ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in Thousands)	December 31, 2019	December 31, 2018	December 31, 2017
Net income	$ 164,460	$ 159,139	$ 96,070
Other comprehensive income (loss) net of tax:			
Unrealized holding gain (loss) on securities available for sale arising during the period, net of tax of $12,946, $3,174, and $5,193	48,703	(13,872)	9,645
Unrealized gain (loss) on cash flow hedges arising during the period, net of tax of $226, $52, and $4	(846)	437	9
Reclassification adjustment for net gains included in net income, net of tax of $857, $797, and $576	(3,224)	(3,002)	(1,070)
Defined benefit pension plans, net of tax of $1,239, $1,001, and $1,125			
Net gain (loss) arising during period	4,579	(1,435)	2,686
Amortization of prior service cost	84	(16)	(597)
	49,296	(17,888)	10,673
Comprehensive income	$ 213,756	$ 141,251	$ 106,743

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

	Preferred		Common Stock					
(Dollars in Thousands, Except Share Data)	**Shares**	**Amount**	**Shares**	**Amount**	**Additional Paid in Capital**	**Retained Earnings**	**Accumulated Other Comprehensive Income (Loss)**	**Total**
Balances, December 31, 2016	**125**	**$ 125**	**40,912,697**	**$ 5,114**	**$ 509,018**	**$ 400,981**	**$ (13,581)**	**$ 901,657**
Comprehensive income								
Net income	—	—	—	—	—	96,070	—	96,070
Other comprehensive income (loss), net of tax	—	—	—	—	—	—	10,673	10,673
Cash dividends on common stock ($.69 per share)	—	—	—	—	—	(31,820)	—	(31,820)
Issuance of common stock related to acquisitions	—	—	8,044,446	1,006	320,425	—	—	321,431
Share-based compensation	—	—	89,362	11	2,816	—	—	2,827
Stock issued under employee benefit plans	—	—	14,948	2	517	—	—	519
Stock issued under dividend reinvestment and stock purchase plan	—	—	24,058	3	988	—	—	991
Stock options exercised	—	—	104,748	13	2,385	—	—	2,398
Restricted shares withheld for taxes	—	—	(32,021)	(4)	(1,279)	—	—	(1,283)
Balances, December 31, 2017	**125**	**$ 125**	**49,158,238**	**$ 6,145**	**$ 834,870**	**$ 465,231**	**$ (2,908)**	**$ 1,303,463**
Comprehensive income								
Net income	—	—	—	—	—	159,139	—	159,139
Other comprehensive income (loss), net of tax	—	—	—	—	—	—	(17,888)	(17,888)
Cash dividends on common stock ($.84 per share)	—	—	—	—	—	(41,660)	—	(41,660)
Reclassification adjustment under ASU 2018-02	—	—	—	—	—	626	(626)	—
Share-based compensation	—	—	112,569	14	3,578	—	—	3,592
Stock issued under employee benefit plans	—	—	19,001	2	705	—	—	707
Stock issued under dividend reinvestment and stock purchase plan	—	—	28,156	4	1,207	—	—	1,211
Stock options exercised	—	—	76,152	10	1,588	—	—	1,598
Restricted shares withheld for taxes	—	—	(44,316)	(6)	(1,896)	—	—	(1,902)
Balances, December 31, 2018	**125**	**$ 125**	**49,349,800**	**$ 6,169**	**$ 840,052**	**$ 583,336**	**$ (21,422)**	**$ 1,408,260**
Comprehensive income								
Net income	—	—	—	—	—	164,460	—	164,460
Other comprehensive income (loss), net of tax	—	—	—	—	—	—	49,296	49,296
Cash dividends on common stock ($1.00 per share)	—	—	—	—	—	(51,276)	—	(51,276)
Issuance of common stock related to acquisitions	—	—	6,383,806	798	229,128	—	—	229,926
Repurchases of common stock	—	—	(516,016)	(65)	(18,976)	—	—	(19,041)
Share-based compensation	—	—	116,572	15	4,100	—	—	4,115
Stock issued under employee benefit plans	—	—	21,521	3	699	—	—	702
Stock issued under dividend reinvestment and stock purchase plan	—	—	38,942	5	1,526	—	—	1,531
Stock options exercised	—	—	16,950	2	142	—	—	144
Restricted shares withheld for taxes	—	—	(43,093)	(6)	(1,674)	—	—	(1,680)
Balances, December 31, 2019	**125**	**$ 125**	**55,368,482**	**$ 6,921**	**$ 1,054,997**	**$ 696,520**	**$ 27,874**	**$ 1,786,437**

See notes to consolidated financial statements.

PART II: ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in Thousands)	December 31, 2019	December 31, 2018	December 31, 2017
Cash Flow From Operating Activities:			
Net income	$ 164,460	$ 159,139	$ 96,070
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	2,800	7,227	9,143
Depreciation and amortization	9,383	8,842	7,967
Change in deferred taxes	4,965	3,524	15,523
Share-based compensation	4,115	3,592	2,827
Loans originated for sale	(511,407)	(372,791)	(377,252)
Proceeds from sales of loans held for sale	513,357	380,254	387,095
Gains on sales of loans held for sale	(6,209)	(5,025)	(5,910)
Gains on sales of securities available for sale	(4,415)	(4,269)	(2,631)
Increase in cash surrender of life insurance	(4,518)	(4,020)	(3,906)
Gains on life insurance benefits	(19)	(198)	(2,671)
Change in interest receivable	(4,659)	(3,751)	(6,838)
Change in interest payable	1,090	1,217	31
Other adjustments	9,464	6,494	7,054
Net cash provided by operating activities	178,407	180,235	126,502
Cash Flows from Investing Activities:			
Net change in interest-bearing deposits	199,928	(1,936)	237,936
Purchases of:			
Securities available for sale	(676,791)	(370,284)	(479,045)
Securities held to maturity	(423,385)	(30,465)	(30,220)
Proceeds from sales of securities available for sale	132,837	154,519	94,165
Proceeds from maturities of:			
Securities available for sale	138,356	77,881	70,846
Securities held to maturity	130,502	66,129	72,220
Redemption (Purchase) of Federal Reserve and Federal Home Loan Bank stock	—	(763)	40
Net change in loans	(512,364)	(483,418)	(670,000)
Net cash and cash equivalents received in acquisition	10,207	—	54,536
Proceeds from the sale of other real estate owned	2,060	9,121	6,584
Proceeds from life insurance benefits	815	2,836	11,655
Other investing activities	(8,564)	804	(4,047)
Net cash used in investing activities	(1,006,399)	(575,576)	(635,330)
Cash Flows from Financing Activities:			
Net change in :			
Demand and savings deposits	883,524	526,859	425,742
Certificates of deposit and other time deposits	95,913	55,204	75,236
Borrowings	599,298	1,515,526	1,088,189
Repayment of borrowings	(643,169)	(1,677,860)	(1,024,166)
Cash dividends on common stock	(51,276)	(41,660)	(31,820)
Stock issued under employee benefit plans	702	707	519
Stock issued under dividend reinvestment and stock purchase plans	1,531	1,211	991
Stock options exercised	144	1,598	2,398
Restricted shares withheld for taxes	(1,680)	(1,902)	(1,283)
Repurchase of common stock	(19,041)	—	—
Net cash provided by financing activities	865,946	379,683	535,806
Net Change in Cash and Cash Equivalents	37,954	(15,658)	26,978
Cash and Cash Equivalents, January 1	139,247	154,905	127,927
Cash and Cash Equivalents, December 31	$ 177,201	$ 139,247	$ 154,905
Additional cash flow information:			
Interest paid	$ 107,598	$ 67,870	$ 36,332
Income tax paid	23,588	23,289	22,421
Loans transferred to other real estate owned	7,031	855	8,360
Fixed assets transferred to other assets	1,210	374	6,753
Non-cash investing activities using trade date accounting	—	6,551	9,401
Investments transferred from held to maturity to available for sale in accordance with ASU 2017-12	—	30,794	—
ROU assets obtained in exchange for new operating lease liabilities	23,529	—	—

CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED

In conjunction with the acquisitions, liabilities were assumed as follows:

	December 31,	December 31,	December 31,

	2019	2018	2017
Fair value of assets acquired	$ 1,451,287	$ —	$ 1,531,397
Cash received (paid) in acquisition	(15)	—	(12)
Less: Common stock issued	229,926	—	321,431
Liabilities assumed	$ 1,221,346	$ —	$ 1,209,954

See notes to consolidated financial statements.

NOTE 1

NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Preparation

The accounting and reporting policies of the Corporation and the Bank, conform to accounting principles generally accepted in the United States of America and reporting practices followed by the banking industry.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Corporation is a financial holding company whose principal activity is the ownership and management of the Bank and operates in a single significant business segment. The Bank provides full banking services under an Indiana state-charter. Additionally, the Bank operates as First Merchants Private Wealth Advisors (a division of First Merchants Bank).

The Bank generates commercial, mortgage, and consumer loans and receives deposits from customers located primarily in central and northern Indiana, northeast Illinois, central Ohio and southeast Michigan counties. The Bank's loans are generally secured by specific items of collateral, including real property, consumer assets and business assets.

A brief description of current accounting practices and current valuation methodologies are presented below.

CONSOLIDATION of the Corporation's financial statements include the accounts of the Corporation and all its subsidiaries, after elimination of all material intercompany transactions.

BUSINESS COMBINATIONS are accounted for under the acquisition method of accounting. Under the acquisition method, assets and liabilities of the business acquired are recorded at their estimated fair values as of the date of acquisition with any excess of the cost of the acquisition over the fair value of the net tangible and intangible assets acquired recorded as goodwill. Results of operations of the acquired business are included in the income statement from the date of acquisition.

AVAILABLE FOR SALE SECURITIES are recorded at fair value on a recurring basis with the unrealized gains and losses, net of applicable income taxes, recorded in other comprehensive income. Realized gains and losses are recorded in earnings and the prior fair value adjustments are reclassified within stockholders' equity. Gains and losses on sales of securities are determined on the specific-identification method. Amortization of premiums and accretion of discounts are recorded as interest income from securities.

Available for sale and held to maturity securities are evaluated for OTTI at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. In determining OTTI, management considers many factors, including: (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions, and (4) whether the Corporation has the intent to sell the debt security or more likely than not, will be required to sell the debt security before its anticipated recovery. The assessment of whether an other-than-temporary decline exists involves a high degree of subjectivity and judgment and is based on the information available to management at a point in time.

When OTTI occurs, the amount of OTTI recognized in the income statement depends on whether the Corporation intends to sell the security or it is more likely than not that the Corporation will be required to sell the security before recovery of its amortized cost basis, less any recognized credit loss. If the intent is to sell, or it is more likely than not that the Corporation will be required to sell the security before recovery of its amortized cost basis, less any recognized credit loss, the OTTI shall be recognized in earnings equal to the entire difference between the investment's amortized cost basis, less any recognized credit loss, and its fair value at the balance sheet date. If the intent is not to sell the security and it is not more likely than not that the Corporation will be required to sell the security before the recovery of its amortized cost basis less any recognized credit loss, the OTTI has been separated into the amount representing the credit loss and the amount related to all other factors. The amount of the total OTTI related to the credit loss is determined based on the present value of cash flows expected to be collected and is recognized in earnings. The amount of the total OTTI related to other factors is recognized in other comprehensive income, net of applicable income taxes. The previous amortized cost basis less the OTTI recognized in earnings becomes the new amortized cost basis of the investment.

HELD TO MATURITY SECURITIES are classified as held to maturity when the Corporation has the positive intent and ability to hold the securities to maturity. Securities held to maturity are carried at amortized cost. For held to maturity debt securities, the amount of an OTTI recorded in other comprehensive income for the noncredit portion of a previous other-than-temporary impairment is amortized prospectively over the remaining life of the security on the basis of the timing of future estimated cash flows of the security.

LOANS HELD FOR SALE are carried at the principal amount outstanding. The carrying amount approximates fair value due to the short duration between origination and the date of sale.

LOANS held in the Corporation's loan portfolio are carried at the principal amount outstanding, net of unearned income and principal charge-offs. Certain non-accrual, substantially delinquent and renegotiated loans classified as troubled debt restructures may be considered to be impaired in accordance with ASC 310, *Receivables*. Under ASC 310-10, a loan is impaired when, based on current information or events, it is probable all amounts due (principal and interest) according to the contractual terms of the loan agreement are uncollectible. Renegotiated consumer loans classified as troubled debt restructures are considered to be impaired. In applying the provisions of ASC 310-10, the Corporation considers all other investments in one-to-four family residential loans and consumer installment loans to be homogeneous and therefore excluded from separate identification for evaluation of impairment. Impaired loans are carried at the fair value of collateral if the loan is collateral dependent, or the present value of estimated future cash flows using the loan's existing rate. A portion of the allowance for loan losses is allocated to impaired loans if the value of such loans is deemed to be less than the unpaid balance. If these allocations cause the allowance for loan losses to increase, such increase is reported as a component of the provision for loan losses. Loan losses are charged against the allowance when management believes the uncollectability of the loan is confirmed. The valuation would be considered Level 3, consisting of appraisals of underlying collateral and discounted cash flow analysis.

Interest income is accrued on the principal balances of loans. The accrual of interest is discontinued on a loan when, in management's opinion, the borrower may be unable to meet payments as they become due. When the interest accrual is discontinued, all unpaid accrued interest is reversed against earnings when considered uncollectible. Interest income accrued in the prior year, if any, is charged to the allowance for loan losses. Interest income is subsequently recognized only to the extent cash payments are received and the loan is returned to accruing status. Certain loan fees and direct costs are being deferred and amortized as an adjustment of yield on the loans.

Loan commitments and letters-of-credit generally have short-term, variable-rate features and contain clauses which limit the exposure to changes in customer credit quality. Accordingly, their carrying values, which are immaterial at the respective balance sheet dates, are reasonable estimates of fair value.

LOANS ACQUIRED IN BUSINESS COMBINATIONS with evidence of credit deterioration since origination and for which it is probable that all contractually required payments will not be collected are considered to be purchased credit impaired. Evidence of credit quality deterioration as of purchase dates may include information such as past-due and nonaccrual status, borrower credit risk grade and recent loan to value percentages. Purchased credit-impaired loans are accounted for under the accounting guidance for loans and debt securities acquired with deteriorated credit quality (ASC 310-30). These loans are initially measured at fair value based upon expected cash flows without anticipation of prepayments and includes estimated future credit losses expected to be incurred over the life of the loans. As a result, related discounts are recognized subsequently through accretion based on the expected cash flows of the acquired loans. For purposes of applying ASC 310-30, loans acquired in business combinations are individually evaluated for the initial fair value measurement. Accordingly, allowances for credit losses related to these loans are not carried over at the acquisition date.

The difference between contractually required payments and the cash flows expected to be collected at acquisition is referred to as the nonaccretable portion of the fair value discount or premium. The accretable portion of the fair value discount or premium is the difference between the expected cash flows and the net present value of expected cash flows, with such difference accreted into earnings over the term of the loans. Acquired loans not accounted for under ASC 310-30 are accounted for under ASC 310-20, which allows the fair value adjustment to be accreted into income over the remaining life of the loans.

ALLOWANCE FOR LOAN LOSSES is maintained to absorb losses inherent in the loan portfolio and is based on ongoing, quarterly assessments of the probable losses inherent in the loan portfolio. The allowance is increased by the provision for loan losses, which is charged against current operating results. Loan losses are charged against the allowance when management believes the uncollectability of a loan is confirmed. Subsequent recoveries, if any, are credited to the allowance. The Corporation's strategy for credit risk management includes credit policies and underwriting criteria for all loans, as well as an overall credit limit for each customer significantly below legal lending limits. The strategy also emphasizes diversification on regional geographic and industry levels, regular credit quality reviews and management reviews of large credit exposures and loans experiencing deterioration of credit quality.

The Corporation's methodology for assessing the appropriateness of the allowance consists of three key elements – the determination of the appropriate reserves for impaired loans accounted for under ASC 310-10, probable losses estimated from historical loss rates, and probable losses resulting from economic, environmental, qualitative or other deterioration above and beyond what is reflected in the first two components of the allowance.

Where appropriate, reserves are allocated to individual loans based on management's estimate of the borrower's ability to repay the loan given the availability of collateral, other sources of cash flow and legal options available to the Corporation. Loans individually evaluated for impairment are those deemed impaired in accordance with ASC 310-10, including commercial relationships greater than $500,000 that exhibit well defined credit weaknesses. Any allowances for impaired loans are measured based on the fair value of the underlying collateral, if collateral dependent, or the present value of expected future cash flows discounted at the loan's effective interest rate. The Corporation evaluates the collectability of principal when assessing the need for a loss accrual. Historical loss rates are applied to other commercial loans not subject to specific reserve allocations.

The historical allocation for commercial loans graded pass are established by loan segments using loss rates based on the Corporation's migration analysis. This migration analysis shows the loss rates for each segment of loans based on the loan grades at the beginning of the twelve month period. This loss rate is then applied to the current portfolio of loans in each respective loan segment.

Homogenous loans, such as consumer installment and residential mortgage loans, are not individually risk graded. Reserves are established for each segment of loans using loss rates based on charge-offs for the same period as the migration analysis used for commercial loans.

Historical loss allocations for commercial and consumer loans may be adjusted for significant factors that, in management's judgment, reflect the impact of any current conditions on loss recognition. Factors which management considers in the analysis include the effects of the national and local economies, trends in loan growth and charge-off rates, changes in mix, concentration of loans in specific industries, asset quality trends (delinquencies, charge-offs and non-accrual loans), risk management and loan administration, changes in the internal lending policies and credit standards, examination results from bank regulatory agencies and the Corporation's internal loan review.

PENSION benefits are provided to the Corporation's employees. Its accounting policies related to pensions and other post retirement benefits reflect the guidance in ASC 715, *Compensation – Retirement Benefits.* The Corporation does not consolidate the assets and liabilities associated with the pension plan. Instead, the Corporation recognizes the funded status of the plan in the consolidated balance sheets. The measurement of the funded status and the annual pension expense involves actuarial and economic assumptions. Various statistical and other factors, which attempt to anticipate future events, are used in calculating the expense and liabilities related to the plans. Key factors include assumptions on the expected rates of return on plan assets, discount rates, expected rates of salary increases and health care costs and trends. The Corporation considers market conditions, including changes in investment returns and interest rates in making these assumptions. The primary assumptions used in determining the Corporation's pension and post retirement benefit obligations and related expenses are presented in NOTE 21. PENSION AND OTHER POST RETIREMENT BENEFIT PLANS of these Notes to Consolidated Financial Statements.

PREMISES AND EQUIPMENT is carried at cost net of accumulated depreciation. Depreciation is computed using the straight-line and declining balance methods based on the estimated useful lives of the assets ranging from three to forty years. Maintenance and repairs are expensed as incurred, while major additions and improvements, which extend the useful life, are capitalized. Gains and losses on dispositions are included in current operations.

FEDERAL HOME LOAN BANK STOCK is a required investment for institutions that are members of the FHLB. The Bank is a member of the FHLB of Indianapolis. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

INTANGIBLE ASSETS that are subject to amortization, including core deposit intangibles, are being amortized on both the straight-line and accelerated basis over two to ten years. Intangible assets are periodically evaluated as to the recoverability of their carrying value.

GOODWILL is maintained by applying the provisions of ASC 350, *Intangibles – Goodwill and Other*. For purchase acquisitions, the Corporation is required to record the assets acquired, including identified intangible assets, and the liabilities assumed at their fair value, which in many instances involves estimates based on third party valuations, such as appraisals, or internal valuations based on discounted cash flow analysis or other valuation techniques that may include estimates of attrition, inflation, asset growth rates or other relevant factors. In addition, the determination of the useful lives for which an intangible asset will be amortized is subjective.

Under ASC 350, the Corporation is required to evaluate goodwill for impairment on an annual basis, as well as on an interim basis, if events or changes indicate that the asset may be impaired, indicating that the carrying value may not be recoverable. The Corporation has historically elected to test for goodwill impairment as of October 1 of each year and has determined that no impairment exists.

BANK OWNED LIFE INSURANCE has been purchased on certain employees and directors of the Corporation to offset a portion of the employee benefit costs. The Corporation records the life insurance at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or amounts due that are probable at settlement. Changes in cash surrender values and death benefits received in excess of cash surrender values are reported in non-interest income. A corporate policy is in place with defined thresholds that limit the amount of credit, interest rate and liquidity risk inherent in a BOLI portfolio. The Corporation actively monitors the overall portfolio performance along with the credit quality of the insurance carriers and the credit quality and yield of the underlying investments.

OTHER REAL ESTATE OWNED consists of assets acquired through, or in lieu of, loan foreclosure and are held for sale. They are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation are included in other real estate owned and foreclosure expenses.

DERIVATIVE INSTRUMENTS are carried at the fair value of the derivatives and reflects the estimated amounts that would have been received to terminate these contracts at the reporting date based upon pricing or valuation models applied to current market information.

As part of the asset/liability management program, the Corporation will utilize, from time to time, interest rate floors, caps or swaps to reduce its sensitivity to interest rate fluctuations. These are derivative instruments, which are recorded as assets or liabilities in the consolidated balance sheets at fair value. Changes in the fair values of derivatives are reported in the consolidated statements of operations or AOCI depending on the use of the derivative and whether the instrument qualifies for hedge accounting. The key criterion for the hedge accounting is that the hedged relationship must be highly effective in achieving offsetting changes in those cash flows that are attributable to the hedged risk, both at inception of the hedge and on an ongoing basis.

Derivatives that qualify for the hedge accounting treatment are designated as either: (1) a hedge of the fair value of the recognized asset or liability, or of an unrecognized firm commitment (a fair value hedge); or (2) a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability (a cash flow hedge). To date, the Corporation has only entered into a cash flow hedge. For cash flow hedges, changes in the fair values of the derivative instruments are reported in AOCI to the extent the hedge is effective. The gains and losses on derivative instruments that are reported in AOCI are reflected in the consolidated statements of income in the periods in which the results of operations are impacted by the variability of the cash flows of the hedged item. Generally, net interest income is increased or decreased by amounts receivable or payable with respect to the derivatives, which qualify for hedge accounting. At inception of the hedge, the Corporation establishes the method it uses for assessing the effectiveness of the hedging derivative and the measurement approach for determining the ineffective aspect of the hedge. The ineffective portion of the hedge, if any, is recognized in the consolidated statements of income. The Corporation excludes the time value expiration of the hedge when measuring ineffectiveness.

The Corporation offers interest rate derivative products (e.g. interest rate swaps) to certain of its high-quality commercial borrowers. This product allows customers to enter into an agreement with the Corporation to swap their variable rate loan to a fixed rate. These derivative products are designed to reduce, eliminate or modify the risk of changes in the borrower's interest rate or market price risk. The extension of credit incurred through the execution of these derivative products is subject to the same approvals and rigorous underwriting standards as the related traditional credit product. The Corporation limits its risk exposure to these products by entering into a mirror-image, offsetting swap agreement with a separate, well-capitalized and rated counterparty previously approved by the Credit and Asset Liability Committee. By using these interest rate swap arrangements, the Corporation is also better insulated from the interest rate risk associated with underwriting fixed-rate loans. These derivative contracts are not designated against specific assets or liabilities under ASC 815, *Derivatives and Hedging*, and, therefore, do not qualify for hedge accounting. The derivatives are recorded on the balance sheet at fair value and changes in fair value of both the customer and the offsetting swap agreements are recorded (and essentially offset) in non-interest income. The fair value of the derivative instruments incorporates a consideration of credit risk (in accordance with ASC 820, *Fair Value Measurements and Disclosures*), resulting in some volatility in earnings each period.

SECURITIES SOLD UNDER REPURCHASE AGREEMENTS represent securities the Corporation routinely sells to certain treasury management customers and then repurchases these securities the next day. Securities sold under repurchase agreements are reflected as secured borrowings in the consolidated balance sheets at the amount of cash received in connection with each transaction.

REVENUE RECOGNITION guidance was adopted by the Corporation on January 1, 2018. ASU 2014-09 establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts to provide goods or services to customers. The core principle requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration that it expects to be entitled to receive in exchange for those goods or services recognized as performance obligations are satisfied.

The majority of the Corporation's revenue-generating transactions are not subject to ASU 2014-09, including revenue generated from financial instruments, such as loans, letters of credit, derivatives and investment securities, as well as revenue related to mortgage servicing activities, as these activities are subject to other GAAP discussed elsewhere within the disclosures. The Corporation has evaluated the nature of its contracts with customers and determined that further disaggregation of revenue from contracts with customers into more granular categories beyond what is presented in the Consolidated Statements of Income was not necessary. Descriptions of revenue-generating activities that are within the scope of ASU 2014-09, which are presented in our income statements are as follows:

Service charges on deposit accounts: The Corporation earns fees from its deposit customers for transaction-based, account maintenance and overdraft services. Transaction-based fees, which include services such as ATM use fees, stop payment charges, statement rendering and ACH fees, are recognized at the time the transaction is executed, which is the point in time the Corporation fulfills the customer's request. Account maintenance fees, which relate primarily to monthly maintenance, are earned monthly, representing the period which the Corporation satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the customer's account balance.

Fiduciary activities: This represents monthly fees due from wealth management customers as consideration for managing the customers' assets. Wealth management and trust services include custody of assets, investment management, fees for trust services and similar fiduciary activities. These fees are primarily earned over time as the Corporation provides the contracted monthly or quarterly services and are generally assessed based on the market value of assets under management at month-end. Fees that are transaction-based are recognized at the point in time that the transaction is executed.

Investment Brokerage Fees: The Corporation earns fees from investment brokerage services provided to its customers by a third-party service provider. The Corporation receives commissions from the third-party provider on a monthly basis based upon customer activity for the month. The fees are paid to us by the third party on a monthly basis and are recognized when received.

Interchange income: The Corporation earns interchange fees from debit and credit cardholder transactions conducted through the Visa and MasterCard payment networks. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized concurrent with the transaction processing services provided to the cardholder.

Gains (Losses) on Sales of OREO: The Corporation records a gain or loss from the sale of OREO when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Corporation finances the sale of OREO to the buyer, the Corporation assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the OREO asset is derecognized and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer. In determining the gain or loss on the sale, the Corporation adjusts the transaction price and related gain (loss) on sale if a significant financing component is present.

TRANSFERS OF FINANCIAL ASSETS are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Corporation and put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets and (3) the Corporation does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

STOCK OPTION AND RESTRICTED STOCK AWARD PLANS are maintained by the Corporation. The compensation costs are recognized for stock options and restricted stock awards issued to employees and directors based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options. The market price of the Corporation's common stock at the date of grant is used for restricted stock awards. Compensation expense is recognized over the appropriate service period, which is generally two or three years.

INCOME TAX in the consolidated statements of income includes deferred income tax provisions or benefits for all significant temporary differences in recognizing income and expenses for financial reporting and income tax purposes. The Corporation files consolidated income tax returns with its subsidiaries. The Corporation is generally no longer subject to U.S. federal, state and local income tax examinations by tax authorities for tax years before 2016.

The Corporation adopted the provisions of the ASC 740, *Income Taxes*, which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC 740 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. As a result of the implementation of ASC 740, the Corporation did not identify any uncertain tax positions that it believes should be recognized in the financial statements. The Corporation's policy is to recognize interest and penalties related to unrecognized tax benefits, if any, as a component of income tax expense.

NET INCOME PER SHARE is computed by dividing net income available to common shareholders by the weighted-average number of shares of common stock outstanding. Diluted net income per share is computed by dividing net income available to common shareholders by the weighted-average number of shares of common stock outstanding, plus the dilutive effect of outstanding stock options and nonvested restricted stock.

RECLASSIFICATIONS have been made to prior financial statements to conform to the current financial statement presentation. These reclassifications had no effect on net income.

RECENT ACCOUNTING CHANGES ADOPTED IN 2019

FASB Accounting Standards Update No. 2018-11 - *Leases (Topic 842): Targeted Improvements* - The FASB issued Accounting Standards Update (ASU) No. 2018-11, *Leases (Topic 842): Targeted Improvements.* This ASU was intended to reduce costs and ease implementation of the leases standard for financial statement preparers. ASU 2018-11 provided a new transition method and a practical expedient for separating components of a contract. ASU 2018-11 provided entities with an additional (and optional) transition method to adopt the new leases standard. Under this new transition method, an entity initially applied the new leases standard at the adoption date and recognized a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Consequently, the Corporation's reporting for the comparative periods presented in the financial statements in the period of adoption is in accordance with GAAP in Topic 840, Leases. The Corporation must provide the required Topic 840 disclosures for all periods that continue to be in accordance with Topic 840. The amendments did not change the existing disclosure requirements in Topic 840 (for example, they did not create interim disclosure requirements that the Corporation previously was not required to provide). The Corporation adopted this new transition method on January 1, 2019, but did not recognize a cumulative-effect adjustment to the opening balance of retained earnings at adoption. Lease disclosures are included in NOTE 10. LEASES of these Notes to Consolidated Financial Statements.

The amendments in ASU 2018-11 provided lessors with a practical expedient, by class of underlying asset, to not separate non-lease components from the associated lease component and, instead, to account for those components as a single component if the non-lease components otherwise would be accounted for under the new revenue guidance (Topic 606) and both of the following are met:

- The timing and pattern of transfer of the non-lease component(s) and associated lease component are the same.
- The lease component, if accounted for separately, would be classified as an operating lease.

An entity electing this practical expedient (including an entity that accounts for the combined component entirely in Topic 606) is required to disclose certain information, by class of underlying asset, as specified in the ASU. The Corporation elected the practical expedient to not separate non-lease components from the associated lease component at adoption, which was January 1, 2019.

FASB Accounting Standards Update No. 2018-07 - *Compensation - Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting* - The FASB issued an Accounting Standards Update (ASU) intended to reduce cost and complexity and to improve financial reporting for non-employee share-based payments. The ASU expanded the scope of Topic 718, *Compensation-Stock Compensation* (which currently only includes share-based payments to employees) to include share-based payments issued to non-employees for goods or services. Consequently, the accounting for share-based payments to non-employees and employees is substantially aligned. The ASU supersedes Subtopic 505-50, *Equity-Equity-Based Payments to Non-Employees.* The Corporation adopted the standard in the first quarter of 2019 and adoption of the standard did not have a significant effect on the Corporation’s consolidated financial statements.

FASB Accounting Standards Update No. 2017-08 - *Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities* - The FASB issued Accounting Standards Update (ASU) No. 2017-08, *Receivables-Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities*. The ASU shortened the amortization period for certain callable debt securities held at a premium to the earliest call date. Under previous GAAP, entities normally amortized the premium as an adjustment of yield over the contractual life of the instrument. Stakeholders expressed concerns with the approach on the basis that GAAP excluded certain callable debt securities from consideration of early repayment of principal even if the holder was certain the call would be exercised. As a result, upon the exercise of a call on a callable debt security held at a premium, the unamortized premium was recorded as a loss in earnings. Further, there was diversity in practice (1) in the amortization period for premiums of callable debt securities, and (2) in how the potential for exercise of a call was factored into current impairment assessments. Another issue was that the practice in the United States was to quote, price, and trade callable debt securities using a model that incorporated consideration of calls (also referred to as “yield-to-worst” pricing). The ASU shortened the amortization period for certain callable debt securities held at a premium and required the premium to be amortized to the earliest call date. However, the amendments did not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity.

The Corporation was required to apply the amendments on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings at adoption. The Corporation adopted ASU 2017-08 on January 1, 2019 and adoption of the standard did not have a significant effect on the Corporation’s consolidated financial statements.

FASB Accounting Standards Update No. 2016-02 - *Leases (Topic 842)* - The FASB issued new lease accounting guidance in Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842).* Under the new guidance, lessees recognize the following for all leases (with the exception of short-term leases) at the commencement date:

- A lease liability, which is a lessee‘s obligation to make lease payments arising from a lease, measured on a discounted basis; and
- A right-of-use ("ROU") asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term.

Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and Topic 606, *Revenue from Contracts with Customers*. The new lease guidance simplified the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. Lessees are no longer provided with a source of off-balance sheet financing.

The Corporation elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed the Corporation to carry forward the historical lease classification. The Corporation elected to not apply ASC 842 to short-term leases (leases with a term of 12 months or less). Leases with an initial term of 12 months or less are not recorded on the balance sheet as the Corporation expenses the lease on a straight-line basis over the lease term. The Corporation also elected the practical expedient to not separate nonlease components from lease components. Variable payments are not included as part of the consideration of a lease contract and all of the Corporation's nonlease components contain variable payments; therefore, this election will not have any impact on the ROU asset or lease liability.

The Corporation adopted this ASU on January 1, 2019 and recorded a ROU asset of $23.3 million and a lease liability of $23.8 million at adoption. Lease disclosures are included in NOTE 10. LEASES of these Notes to Consolidated Financial Statements.

NEW ACCOUNTING PRONOUNCEMENTS TO BE ADOPTED AFTER 2019

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

FASB Accounting Standards Update No. 2019-11 - *Codification Improvements to Topic 326, Financial Instruments - Credit Losses*

Summary - The FASB issued an Accounting Standards Update (ASU) that addressed issues raised by stakeholders during the implementation of ASU No. 2016-13*, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses of Financial Instruments.*

Among other narrow-scope improvements, the new ASU clarifies guidance around how to report expected recoveries. “Expected recoveries” describes a situation in which an organization recognizes a full or partial write-off of the amortized cost basis of a financial asset, but then later determines that the amount written off, or a portion of that amount, will in fact be recovered. While applying the credit losses standard, stakeholders questioned whether expected recoveries were permitted on assets that had already shown credit deterioration at the time of purchase (also known as PCD assets).

In response to this question, the ASU permits organizations to record expected recoveries on PCD assets. In addition to other narrow technical improvements, the ASU also reinforces existing guidance that prohibits organizations from recording negative allowances for available-for-sale debt securities.

The ASU includes effective dates and transition requirements that vary depending on whether or not an entity has already adopted ASU 2016-13. The Corporation adopted the standard on January 1, 2020, but adoption of the standard did not have a significant impact on the Corporation’s consolidated financial statements.

FASB Accounting Standards Update No. 2018-15 - ***Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract***

Summary - The FASB has issued Accounting Standards Update (ASU) No. 2018-15, *Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract,* which reduces complexity for the accounting for costs of implementing a cloud computing service arrangement. This standard aligns the accounting for implementation costs of hosting arrangements, regardless of whether they convey a license to the hosted software.

The ASU aligns the following requirements for capitalizing implementation costs:
- Those incurred in a hosting arrangement that is a service contract, and
- Those incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license).

For calendar-year public companies, the changes will be effective for fiscal years ending after December 15, 2019. For all other calendar-year companies and organizations, the changes will be effective for fiscal years ending after December 15, 2020. The Corporation adopted the standard on January 1, 2020, but adoption of the standard did not have a significant impact on the Corporation’s consolidated financial statements.

FASB Accounting Standards Update No. 2018-14 - ***Compensation - Retirement Benefits - Defined Benefit Plans - General (Subtopic 715-20): Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans***

Summary - The FASB has issued ASU No. 2018-14, *Compensation - Retirement Benefits - Defined Benefit Plans - General (Subtopic 715-20): Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans,* that applies to all employers that sponsor defined benefit pension or other postretirement plans. The amendments modify the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans.

Disclosure Requirements Deleted
- The amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost over the next fiscal year.
- The amount and timing of plan assets expected to be returned to the employer.
- Related party disclosures about the amount of future annual benefits covered by insurance and annuity contracts and significant transactions between the employer or related parties and the plan.
- For public entities, the effects of a one-percentage-point change in assumed health care cost trend rates on the (a) aggregate of the service and interest cost components of net periodic benefit costs and (b) benefit obligation for postretirement health care benefits.

Disclosure Requirements Added
- An explanation of the reasons for significant gains and losses related to changes in the benefit obligation for the period.

The amendments also clarify the disclosure requirements in paragraph 715-20-50-3, which state that the following information for defined benefit pension plans should be disclosed:
- The projected benefit obligation (PBO) and fair value of plan assets for plans with PBOs in excess of plan assets.
- The accumulated benefit obligation (ABO) and fair value of plan assets for plans with ABOs in excess of plan assets.

ASU No. 2018-14 is effective for fiscal years ending after December 15, 2020, for public business entities and for fiscal years ending after December 15, 2021, for all other entities. Early adoption is permitted for all entities. The Corporation adopted the standard January 1, 2020, but adoption of the standard did not have a significant impact on the Corporation’s disclosures.

FASB Accounting Standards Update No. 2018-13 - ***Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement***

Summary - The FASB has issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement.* ASU No. 2018-13 modifies the disclosure requirements on fair value measurements in Topic 820. Certain disclosure requirements related to transfers between Level 1 and Level 2 of the fair value hierarchy and Level 3 valuation process were removed from Topic 820. Disclosures were also added to Topic 820 for changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period and the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements.

In addition, the amendments eliminate at a minimum from the phrase “an entity shall disclose at a minimum” to promote the appropriate exercise of discretion by entities when considering fair value measurement disclosures and to clarify that materiality is an appropriate consideration of entities and their auditors when evaluating disclosure requirements.

The amendments in ASU No. 2018-13 are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. Early adoption is permitted. An entity is permitted to early adopt any removed or modified disclosures upon issuance of ASU No. 2018-13 and delay adoption of the additional disclosures until their effective date. The Corporation adopted the standard January 1, 2020, but adoption of the standard did not have a significant impact on the Corporation's disclosures.

FASB Accounting Standards Update No. 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*

Summary - The FASB has issued Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This new guidance was issued to address concerns that current generally accepted accounting principles (GAAP) restricts the ability to record credit losses that are expected, but do not yet meet the “probable” threshold by replacing the current “incurred loss” model for recognizing credit losses with an “expected life of loan loss” model referred to as the Current Expected Credit Loss (CECL) model.

Under the CECL model, certain financial assets carried at amortized cost, such as loans held for investment and held-to-maturity debt securities, are required to be presented at the net amount expected to be collected. The measurement of expected credit losses is to be based on information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. This measurement will take place at the time the financial asset is first added to the balance sheet and periodically thereafter. This differs significantly from the “incurred loss” model required under current GAAP, which delays recognition until it is probable a loss has been incurred. The change could materially affect how the allowance for loan losses is determined and cause a charge to earnings through the provision for loan losses. Such charge would adversely affect the financial condition of the Corporation.

The ASU is effective for SEC filers for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019 (i.e., January 1, 2020, for calendar year entities). The Corporation adopted this ASU January 1, 2020.

The Corporation has developed models that satisfy the requirements of the new standard which will be governed by a system of internal controls and a cross-functional working group consisting of accounting, finance, and credit administration personnel. The loan portfolio was pooled into ten loan segments with similar risk characteristics for which the probability of default/loss given default methodology will be applied. The Corporation intends to utilize a one-year economic forecast period then revert to historical macroeconomic levels for the remaining life of the portfolio. A baseline macroeconomic scenario, along with three other scenarios, will be used to develop a range of estimated credit losses for which to determine the best estimate within.

The Corporation will record a one-time cumulative-effect adjustment to retained earnings, net of income taxes, on the consolidated balance sheet as of the beginning of the first quarter of 2020. The allowance will increase by 55-65 percent because it will cover expected credit losses over the life of the loan portfolio, which approximates four years, and it includes all purchased loans that were previously excluded from the allowance for loan losses calculation. CECL also requires the establishment of a reserve for potential losses from unfunded commitments that is recorded in other liabilities, separate from allowance for credit losses, which is estimated to be approximately $18 million.

NOTE 2

ACQUISITION

MBT Financial Corp.

On September 1, 2019, the Corporation acquired 100 percent of MBT. MBT, a Michigan corporation, merged with and into the Corporation, whereupon the separate corporate existence of MBT ceased and the Corporation survived. Immediately following the merger, MBT's wholly-owned subsidiary, Monroe Bank & Trust, merged with and into the Bank, with the Bank continuing as the surviving bank.

MBT was headquartered in Monroe, Michigan and had 20 banking centers serving the Monroe market. Pursuant to the merger agreement, each MBT shareholder received 0.275 shares of the Corporation's common stock for each outstanding share of MBT common stock held. The Corporation issued approximately 6.4 million shares of common stock, which was valued at approximately $229.9 million. The Corporation engaged in this transaction with the expectation that it would be accretive to income and add a new market area in Michigan that has a demographic profile consistent with many of the current Indiana and Ohio markets served by the Bank. Goodwill resulted from this transaction due to the expected synergies and economies of scale.

(table dollar amounts in thousands, except share data)

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 preliminary 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 MBT acquisition is detailed in the following table. If, prior to the end of the one-year measurement period for finalizing the purchase price allocation, information becomes available about facts and circumstances that existed as of the acquisition date, which would indicate adjustments are required to the purchase price allocation, such adjustments will be included in the purchase price allocation retrospectively.

		Fair Value
Cash and cash equivalents	$	10,222
Interest-bearing time deposits		281,228
Investment securities		212,235
Loans		732,578
Premises and equipment		21,664
Federal Home Loan Bank stock		4,148
Interest receivable		3,361
Cash surrender value of life insurance		59,545
Tax asset, deferred and receivable		5,205
Other assets		6,011
Deposits		(1,105,926)
Securities sold under repurchase agreements		(94,760)
Federal Home Loan Bank advances		(10,853)
Other liabilities		(9,807)
Net tangible assets acquired		114,851
Core deposit intangible		16,527
Goodwill		98,563
Purchase price	$	229,941

Of the total purchase price, $16,527,000 was allocated to a core deposit intangible, which will be amortized over its estimated life of 10 years. The remaining purchase price was allocated to goodwill, which is not deductible for tax purposes.

Acquired loan data for MBT is included in the following table:

	Fair Value of Acquired Loans at Acquisition Date		Gross Contractual Amounts Receivable at Acquisition Date		Best Estimate at Acquisition Date of Contractual Cash Flows Not Expected to be Collected	
Acquired receivables subject to ASC 310-30	$	3,531	$	6,840	$	2,733
Acquired receivables not subject to ASC 310-30	$	729,047	$	907,210	$	14,722

Purchased loans with evidence of credit deterioration since origination and for which it is probable at the date of acquisition that the acquirer will not collect all contractually required principal and interest payments are accounted for under ASC 310-30, *Loans Acquired with Deteriorated Credit Quality*. The difference between contractually required payments and the cash flows expected to be collected at acquisition is referred to as the nonaccretable difference. The accretable portion of the fair value discount or premium is the difference between the expected cash flows and the net present value of expected cash flows, with such difference accreted into earnings over the term of the loans.

Pro Forma Financial Information

The results of operations of MBT 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, 2019 and 2018, as if the MBT acquisition occurred as of the beginning of the periods presented.

	Year Ended December 31, 2019		Year Ended December 31, 2018	
Total revenue (net interest income plus other income)	$	474,891	$	476,878
Net income available to common shareholders	$	161,228	$	177,906
Earnings per share:				
Basic	$	2.89	$	3.19
Diluted	$	2.88	$	3.18

The pro forma information includes adjustments for interest income on loans and investments, interest expense on deposits and borrowings, premises expense for banking centers acquired and amortization of intangibles arising from the transaction and the related income tax effects. The pro forma information for the year ended December 31, 2019 includes operating revenue from MBT of $19.7 million since the date of acquisition. Additionally, $19.7 million, net of tax, of non-recurring expenses directly attributable to the MBT acquisition were included in the year ended December 31, 2019 pro forma information.

(table dollar amounts in thousands, except share data)

The pro forma information for the year ended December 31, 2018 includes operating results from MBT as if the acquisition occurred at the beginning of the year. Additionally, $877,000, net of tax, of non-recurring expenses directly attributable to the MBT acquisition were included in the year ended December 31, 2018 pro forma information.

The pro forma information is presented for informational purposes only and is not indicative of the results of operations that actually would have been achieved had the acquisition been consummated as of that time, or intended to be a projection of future results.

NOTE 3

CASH AND CASH EQUIVALENTS

The Corporation considers all liquid investments with original maturities of three months or less to be cash equivalents. As of December 31, 2019, cash and cash equivalents is defined to include cash on hand, deposits in other institutions and federal funds sold.

At December 31, 2019, the Corporation's interest-bearing cash accounts and noninterest-bearing transaction deposits held at other institutions exceeded the $250,000 federally insured limits by approximately $190,378,000. Each correspondent bank's financial performance and market rating are reviewed on a quarterly basis to ensure the Corporation has deposits only at institutions providing minimal risk for those exceeding the federally insured limits.

Additionally, the Corporation had approximately $39,844,000 at the Federal Home Loan Bank and Federal Reserve Bank, which are government-sponsored entities not insured by the FDIC.

The Corporation is required to maintain reserve funds in cash and/or on deposit with the Federal Reserve Bank. The reserve required at December 31, 2019, was $78,934,000.

NOTE 4

INVESTMENT SECURITIES

The amortized cost, gross unrealized gains, gross unrealized losses and approximate market value of the Corporation's investment securities at the dates indicated were:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale at December 31, 2019				
U.S. Government-sponsored agency securities	$ 38,529	$ 346	$ —	$ 38,875
State and municipal	859,511	41,092	807	899,796
U.S. Government-sponsored mortgage-backed securities	842,349	10,378	1,404	851,323
Corporate obligations	31	—	—	31
Total available for sale	1,740,420	51,816	2,211	1,790,025
Held to maturity at December 31, 2019				
U.S. Government-sponsored agency securities	15,619	1	37	15,583
State and municipal	354,115	15,151	107	369,159
U.S. Government-sponsored mortgage-backed securities	434,804	6,921	401	441,324
Foreign investment	1,500	—	—	1,500
Total held to maturity	806,038	22,073	545	827,566
Total Investment Securities	$ 2,546,458	$ 73,889	$ 2,756	$ 2,617,591
Available for sale at December 31, 2018				
U.S. Government-sponsored agency securities	$ 13,493	$ 92	$ 3	$ 13,582
State and municipal	605,994	5,995	5,854	606,135
U.S. Government-sponsored mortgage-backed securities	530,209	634	8,396	522,447
Corporate obligations	31	—	—	31
Total available for sale	1,149,727	6,721	14,253	1,142,195
Held to maturity at December 31, 2018				
U.S. Government-sponsored agency securities	22,618	—	545	22,073
State and municipal	197,909	2,858	872	199,895
U.S. Government-sponsored mortgage-backed securities	268,860	713	3,323	266,250
Foreign investment	1,000	—	1	999
Total held to maturity	490,387	3,571	4,741	489,217
Total Investment Securities	$ 1,640,114	$ 10,292	$ 18,994	$ 1,631,412

The change in unrealized gains/losses from December 31, 2018 to December 31, 2019 is primarily due to the changes in interest rates. The longer term points on the yield curve have declined since year-end which increases the fair value of securities held in the portfolio.

(table dollar amounts in thousands, except share data)

The following table shows the Corporation's gross unrealized losses and fair value, aggregated by investment category and length of time the individual securities have been in a continuous unrealized loss position at December 31, 2019 and 2018:

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Temporarily Impaired Available for Sale Securities at December 31, 2019						
State and municipal	$ 76,273	$ 807	$ —	$ —	$ 76,273	$ 807
U.S. Government-sponsored mortgage-backed securities	127,673	1,326	20,796	78	148,469	1,404
Total Temporarily Impaired Available for Sale Securities	203,946	2,133	20,796	78	224,742	2,211
Temporarily Impaired Held to Maturity Securities at December 31, 2019						
U.S. Government-sponsored agency securities	3,016	4	12,467	33	15,483	37
State and municipal	22,947	107	—	—	22,947	107
U.S. Government-sponsored mortgage-backed securities	124,253	364	7,991	37	132,244	401
Total Temporarily Impaired Held to Maturity Securities	150,216	475	20,458	70	$ 170,674	545
Total Temporarily Impaired Investment Securities	$ 354,162	$ 2,608	$ 41,254	$ 148	$ 395,416	$ 2,756

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Temporarily Impaired Available for Sale Securities at December 31, 2018						
U.S. Government-sponsored agency securities	$ 1,490	$ 3	$ —	$ —	$ 1,490	$ 3
State and municipal	234,431	3,958	38,028	1,896	272,459	5,854
U.S. Government-sponsored mortgage-backed securities	196,601	2,400	217,121	5,996	413,722	8,396
Total Temporarily Impaired Available for Sale Securities	432,522	6,361	255,149	7,892	687,671	14,253
Temporarily Impaired Held to Maturity Securities at December 31, 2018						
U.S. Government-sponsored agency securities	—	—	22,073	545	22,073	545
State and municipal	14,952	369	16,786	503	31,738	872
U.S. Government-sponsored mortgage-backed securities	102,828	876	87,268	2,447	190,096	3,323
Foreign investment	—	—	999	1	999	1
Total Temporarily Impaired Held to Maturity Securities	117,780	1,245	127,126	3,496	244,906	4,741
Total Temporarily Impaired Investment Securities	$ 550,302	$ 7,606	$ 382,275	$ 11,388	$ 932,577	$ 18,994

Certain investments in debt securities are reported in the financial statements at amounts less than their historical cost. The historical cost of these investments totaled $398,172,000 and $951,571,000 at December 31, 2019 and 2018, respectively. Total fair value of these investments was $395,416,000 and $932,577,000, which was approximately 15.2 and 57.1 percent of the Corporation's available for sale and held to maturity investment portfolio at December 31, 2019 and 2018, respectively.

The Corporation's management believes the decline in fair value for these securities was temporary. Should the impairment of any of these securities become other-than-temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income during the period the OTTI is identified. The Corporation's management has evaluated all securities with unrealized losses for OTTI and concluded no OTTI existed at December 31, 2019.

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 I and Level II 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 loss 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.

U.S. Government-Sponsored Mortgage-Backed Securities

The unrealized losses on the Corporation's investment in mortgage-backed securities were a result of interest rate changes. The Corporation expects to recover the amortized cost basis over the term of the securities. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because 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, the Corporation does not consider those investments to be other-than-temporarily impaired at December 31, 2019. As noted in the table above, the mortgage-backed securities portfolio contains unrealized losses of $1,404,000 on twenty-seven securities and $401,000 on fifteen securities in the available for sale and held to maturity portfolios, respectively. All these securities are issued by a government-sponsored entity.

(table dollar amounts in thousands, except share data)

State and Municipal Securities and U.S. Government-Sponsored Agency Securities

The unrealized losses on the Corporation's investments in securities of state and political subdivisions and U.S. Government-Sponsored Agency securities were caused by interest rate increases. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost basis of the investments. Because 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, the Corporation does not consider those investments to be other-than-temporarily impaired at December 31, 2019. As noted in the table above, the state and municipal securities portfolio contains unrealized losses of $807,000 on thirty-eight securities and $107,000 on eighteen securities in the available for sale and held to maturity portfolios, respectively. The U.S. Government-Sponsored Agency securities portfolio contains no unrealized loses in the available for sale portfolio, and $37,000 on three securities in the held to maturity portfolio.

The amortized cost and fair value of securities available for sale and held to maturity at December 31, 2019 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.

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Maturity Distribution at December 31, 2019				
Due in one year or less	$ 1,134	$ 1,136	$ 9,920	$ 10,105
Due after one through five years	5,031	5,141	45,197	45,654
Due after five through ten years	74,745	76,920	84,153	88,844
Due after ten years	817,161	855,505	231,964	241,639
	898,071	938,702	371,234	386,242
U.S. Government-sponsored mortgage-backed securities	842,349	851,323	434,804	441,324
Total Investment Securities	$ 1,740,420	$ 1,790,025	$ 806,038	$ 827,566

Securities with a carrying value of approximately $503,427,000, $416,155,000 and $475,999,000 were pledged at December 31, 2019, 2018 and 2017, respectively, to secure certain deposits and securities sold under repurchase agreements, and for other purposes as permitted or required by law.

The book value of securities sold under agreements to repurchase amounted to $182,856,000 at December 31, 2019, and $116,691,000 at December 31, 2018.

Gross gains and losses on the sales and redemptions of available for sale securities for the for the years indicated are shown below.

	2019	2018	2017
Sales and Redemptions of Available for Sale Securities:			
Gross gains	$ 4,415	$ 4,269	$ 2,681
Gross losses	—	—	50

NOTE 5

LOANS AND ALLOWANCE

The Corporation's primary lending focus is small business and middle market commercial, commercial real estate and residential real estate, which results in portfolio diversification. The following tables show the composition of the loan portfolio, the allowance for loan losses and credit quality characteristics by collateral classification, excluding loans held for sale. Loans held for sale at December 31, 2019 and 2018, were $9,037,000 and $4,778,000, respectively.

(table dollar amounts in thousands, except share data)

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

	December 31, 2019	December 31, 2018
Commercial and industrial loans	$ 2,109,879	$ 1,726,664
Agricultural production financing and other loans to farmers	93,861	92,404
Real estate loans:		
Construction	787,568	545,729
Commercial and farmland	3,052,698	2,832,102
Residential	1,143,217	966,421
Home equity	588,984	528,157
Individuals' loans for household and other personal expenditures	135,989	99,788
Public finance and other commercial loans	547,114	433,202
Loans	8,459,310	7,224,467
Allowance for loan losses	(80,284)	(80,552)
Net Loans	$ 8,379,026	$ 7,143,915

Allowance, Credit Quality and Loan Portfolio

The Corporation maintains an allowance for loan losses to cover probable credit losses identified during its loan review process. Management believes that the allowance for loan losses is adequate to cover probable losses inherent in the loan portfolio at December 31, 2019. The process for determining the adequacy of the allowance for loan losses is critical to the Corporation's financial results. It requires management to make difficult, subjective and complex judgments to estimate the effect of uncertain matters. The allowance for loan losses considers current factors, including economic conditions and ongoing internal and external examinations, and will increase or decrease as deemed necessary to ensure it remains adequate. In addition, the allowance as a percentage of charge-offs and nonperforming loans will change at different points in time based on credit performance, portfolio mix and collateral values.

The allowance for loan losses is maintained through the provision for loan losses, which is a charge against earnings. The allowance is increased by provision expense and decreased by charge-offs less recoveries. All charge-offs are approved by the Bank's senior credit officers and in accordance with established policies. The Bank charges off a loan when a determination is made that all or a portion of the loan is uncollectible. The amount provided for loan losses in a given period may be greater than or less than net loan losses experienced during the period, and is based on management's judgment as to the appropriate level of the allowance for loan losses. The determination of the provision amount is based on management's ongoing review and evaluation of the loan portfolio, including an internally administered loan "watch" list and independent loan reviews. The evaluation takes into consideration identified credit problems, the possibility of losses inherent in the loan portfolio that are not specifically identified and management's judgment as to the impact of the current environment and economic conditions on the portfolio.

The allowance consists of specific impairment reserves as required by ASC 310-10-35, a component for historical losses in accordance with ASC 450 and the consideration of current environmental factors in accordance with ASC 450. A loan is deemed impaired when, based on current information or events, it is probable that all amounts due of principal and interest according to the contractual terms of the loan agreement will not be collected.

The historical loss allocation for loans not deemed impaired according to ASC 450 is the product of the volume of loans within the non-impaired criticized and non-criticized risk grade classifications, each segmented by call code, and the historical loss factor for each respective classification and call code segment. The historical loss factors are based upon actual loss experience within each risk and call code classification. The historical look back period for non-criticized loans looks to the most recent rolling-four-quarter average and aligns with the look back period for non-impaired criticized loans. Each of the rolling four quarter periods used to obtain the average, include all charge-offs for the previous twelve-month period, therefore the historical look back period includes seven quarters. Criticized loans are grouped based on the risk grade assigned to the loan. Loans with a special mention grade are assigned a loss factor, and loans with a classified grade but not impaired are assigned a separate loss factor. The loss factor computation for this allocation includes a segmented historical loss migration analysis of risk grades to charge-off.

In addition to the specific reserves and historical loss components of the allowance, consideration is given to various environmental factors to ensure that losses inherent in the portfolio are reflected in the allowance for loan losses. The environmental component adjusts the historical loss allocations for non-impaired loans to reflect relevant current conditions that, in management's opinion, have an impact on loss recognition. Environmental factors that management reviews in the analysis include: national and local economic trends and conditions; trends in growth in the loan portfolio and growth in higher risk areas; levels of, and trends in, delinquencies and non-accruals; experience and depth of lending management and staff; adequacy of, and adherence to, lending policies and procedures including those for underwriting; industry concentrations of credit; and adequacy of risk identification systems and controls through the internal loan review and internal audit processes.

In conformance with ASC 805 and ASC 820, loans purchased after December 31, 2008 are recorded at the acquisition date fair value. Such loans are included in the allowance to the extent a specific impairment is identified that exceeds the fair value adjustment on an impaired loan or the historical loss and environmental factor analysis indicates losses inherent in a purchased portfolio exceeds the fair value adjustment on the portion of the purchased portfolio not deemed impaired.

(table dollar amounts in thousands, except share data)

At December 31, 2019, the allowance for loan losses was $80,284,000, a decrease of $268,000 from the December 31, 2018 balance of $80,552,000. Net charge-offs for the twelve months ended December 31, 2019, were $3,068,000, an increase of $1,361,000 from the same period in 2018. The provision for loan losses for the twelve months ended December 31, 2019 was $2,800,000, a decrease of $4,427,000 from the same period in 2018. The determination of the provision for loan 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 following tables summarize changes in the allowance for loan losses by loan segment for the twelve months ended December 31, 2019, 2018, and 2017:

	Twelve Months Ended December 31, 2019				
	Commercial	Commercial Real Estate	Consumer	Residential	Total
Allowance for loan losses:					
Balances, December 31, 2018	$ 32,657	$ 29,609	$ 3,964	$ 14,322	$ 80,552
Provision for losses	733	1,555	239	273	2,800
Recoveries on loans	1,244	1,289	401	619	3,553
Loans charged off	(1,732)	(3,675)	(569)	(645)	(6,621)
Balances, December 31, 2019	$ 32,902	$ 28,778	$ 4,035	$ 14,569	$ 80,284

	Twelve Months Ended December 31, 2018				
	Commercial	Commercial Real Estate	Consumer	Residential	Total
Allowance for loan losses:					
Balances, December 31, 2017	$ 30,420	$ 27,343	$ 3,732	$ 13,537	$ 75,032
Provision for losses	2,097	2,482	679	1,969	7,227
Recoveries on loans	2,456	2,525	302	993	6,276
Loans charged off	(2,316)	(2,741)	(749)	(2,177)	(7,983)
Balances, December 31, 2018	$ 32,657	$ 29,609	$ 3,964	$ 14,322	$ 80,552

	Twelve Months Ended December 31, 2017				
	Commercial	Commercial Real Estate	Consumer	Residential	Total
Allowance for loan losses:					
Balances, December 31, 2016	$ 27,698	$ 23,661	$ 2,923	$ 11,755	$ 66,037
Provision for losses	2,515	3,159	1,078	2,391	9,143
Recoveries on loans	1,590	2,260	324	706	4,880
Loans charged off	(1,383)	(1,737)	(593)	(1,315)	(5,028)
Balances, December 31, 2017	$ 30,420	$ 27,343	$ 3,732	$ 13,537	$ 75,032

(table dollar amounts in thousands, except share data)

The tables below show the Corporation's allowance for loan losses and loan portfolio by loan segment for the years indicated.

	December 31, 2019				
	Commercial	Commercial Real Estate	Consumer	Residential	Total
Allowance balances:					
Individually evaluated for impairment	$ —	$ 231	$ —	$ 458	$ 689
Collectively evaluated for impairment	32,902	28,547	4,035	14,111	79,595
Total allowance for loan losses	$ 32,902	$ 28,778	$ 4,035	$ 14,569	$ 80,284
Loan balances:					
Individually evaluated for impairment	$ 457	$ 8,728	$ 4	$ 2,520	$ 11,709
Collectively evaluated for impairment	2,748,681	3,821,660	135,985	1,727,966	8,434,292
Loans acquired with deteriorated credit quality	1,716	9,878	—	1,715	13,309
Loans	$ 2,750,854	$ 3,840,266	$ 135,989	$ 1,732,201	$ 8,459,310

	December 31, 2018				
	Commercial	Commercial Real Estate	Consumer	Residential	Total
Allowance balances:					
Individually evaluated for impairment	$ —	$ 1,435	$ 1	$ 436	$ 1,872
Collectively evaluated for impairment	32,657	28,174	3,963	13,886	78,680
Total allowance for loan losses	$ 32,657	$ 29,609	$ 3,964	$ 14,322	$ 80,552
Loan balances:					
Individually evaluated for impairment	$ 1,838	$ 17,756	$ 18	$ 2,413	$ 22,025
Collectively evaluated for impairment	2,248,330	3,347,686	99,770	1,490,872	7,186,658
Loans acquired with deteriorated credit quality	2,102	12,389	—	1,293	15,784
Loans	$ 2,252,270	$ 3,377,831	$ 99,788	$ 1,494,578	$ 7,224,467

Loans individually evaluated for impairment are comprised of commercial and consumer loans deemed impaired in accordance with ASC 310-10. This includes loans acquired with subsequent deterioration of credit quality totaling $2,819,000 with $124,000 of related allowance for loan losses at December 31, 2019 and $1,541,000 with no related allowance for loan losses at December 31, 2018.

The risk characteristics of the Corporation's material 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

These 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. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. Management monitors and evaluates commercial real estate loans based on collateral and risk grade criteria. In addition, management tracks the level of owner-occupied commercial real estate loans versus non-owner occupied loans.

(table dollar amounts in thousands, except share data)

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, which can be impacted by economic conditions in their market areas such as unemployment levels. Repayment on loans secured by 1-4 family residences can 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.

Loans are reclassified to a non-accruing status when, in management's judgment, the collateral value and financial condition of the borrower do not justify accruing interest. When the interest accrual is discontinued, all unpaid accrued interest is reversed against earnings when considered uncollectible. Payments subsequently received on non-accrual 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. Payments received on impaired accruing or delinquent loans are applied to interest income as accrued.

The following table summarizes the Corporation's non-accrual loans by loan class for the years indicated:

	December 31, 2019	December 31, 2018
Commercial and industrial loans	$ 1,255	$ 1,803
Agriculture production financing and other loans to farmers	183	679
Real estate loans:		
Construction	977	8,667
Commercial and farmland	7,007	8,156
Residential	5,062	4,966
Home equity	1,421	1,481
Individuals' loans for household and other personal expenditures	44	42
Public Finance and other commercial loans	—	354
Total	$ 15,949	$ 26,148

Impaired loans include loans deemed impaired according to the guidance set forth in ASC 310-10. Commercial loans under $500,000 and consumer loans, with the exception of troubled debt restructures, are not individually evaluated for impairment.

Allowable methods for determining the amount of impairment include estimating fair value using the fair value of the collateral for collateral dependent loans. If the impaired loan is identified as collateral dependent, then the fair value method for measuring the amount of impairment is utilized. This method 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.

(table dollar amounts in thousands, except share data)

The following tables show the composition of the Corporation's impaired loans, related allowance and interest income recognized while impaired by loan class for the years indicated:

	December 31, 2019				
	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
Impaired loans with no related allowance:					
Commercial and industrial loans	$ 320	$ 320	$ —	$ 320	$ —
Agriculture production financing and other loans to farmers	299	137	—	298	—
Real estate loans:					
Construction	1,206	970	—	1,229	—
Commercial and farmland	8,037	5,849	—	6,000	156
Residential	93	76	—	77	3
Total	$ 9,955	$ 7,352	$ —	$ 7,924	$ 159
Impaired loans with related allowance:					
Real estate loans:					
Commercial and farmland	$ 2,648	$ 1,909	$ 231	$ 1,909	$ —
Residential	2,070	2,044	383	2,083	63
Home equity	417	400	75	409	12
Individuals' loans for household and other personal expenditures	4	4	—	4	$ —
Total	$ 5,139	$ 4,357	$ 689	$ 4,405	$ 75
Total Impaired Loans	$ 15,094	$ 11,709	$ 689	$ 12,329	$ 234

	December 31, 2018				
	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
Impaired loans with no related allowance:					
Commercial and industrial loans	$ 828	$ 806	$ —	$ 833	$ —
Agriculture production financing and other loans to farmers	679	679	—	679	—
Real estate loans:					
Construction	1,352	614	—	835	—
Commercial and farmland	11,176	8,994	—	12,975	165
Residential	118	100	—	101	3
Home equity	49	48	—	48	—
Public finance and other commercial loans	353	353	—	353	—
Total	$ 14,555	$ 11,594	$ —	$ 15,824	$ 168
Impaired loans with related allowance:					
Real estate loans:					
Construction	$ 7,978	$ 7,977	$ 1,429	$ 7,977	$ —
Commercial and farmland	171	171	6	171	—
Residential	1,958	1,907	362	1,915	57
Home equity	376	358	74	365	10
Individuals' loans for household and other personal expenditures	18	18	1	20	1
Total	$ 10,501	$ 10,431	$ 1,872	$ 10,448	$ 68
Total Impaired Loans	$ 25,056	$ 22,025	$ 1,872	$ 26,272	$ 236

(table dollar amounts in thousands, except share data)

	December 31, 2017				
	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
Impaired loans with no related allowance:					
Commercial and industrial loans	$ 7,611	$ 1,536	$ —	$ 3,839	$ —
Agriculture production financing and other loans to farmers	732	700	—	762	—
Real estate loans:					
Commercial and farmland	16,758	15,163	—	17,495	360
Residential	833	519	—	635	—
Home equity	40	8	—	14	—
Individuals' loans for household and other personal expenditures	5	5	—	7	—
Total	$ 25,979	$ 17,931	$ —	$ 22,752	$ 360
Impaired loans with related allowance:					
Commercial and industrial loans	812	782	552	1,517	—
Agriculture production financing and other loans to farmers	357	327	114	327	—
Real estate loans:					
Commercial and farmland	2,988	2,269	567	2,379	—
Residential	1,616	1,572	327	1,580	28
Home equity	350	330	77	332	11
Total	$ 6,123	$ 5,280	$ 1,637	$ 6,135	$ 39
Total Impaired Loans	$ 32,102	$ 23,211	$ 1,637	$ 28,887	$ 399

Impaired loans in the above tables do not include loans accounted for under ASC 310-30, or any other loan, unless deemed impaired in accordance with ASC 310-10.

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) non-performing 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. The key distinctions of this category's classification are that it is indicative of an unwarranted level of risk; and weaknesses are considered “potential”, not “defined”, impairments to the primary source of repayment. Examples include businesses that may be suffering from inadequate management, loss of key personnel or significant customer or litigation.
- 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. Other characteristics may include:
    - o the likelihood that a loan will be paid from the primary source of repayment is uncertain or financial deterioration is underway and very close attention is warranted to ensure that the loan is collected without loss,
    - o the primary source of repayment is gone, and the Corporation is forced to rely on a secondary source of repayment, such as collateral liquidation or guarantees,
    - o loans have a distinct possibility that the Corporation will sustain some loss if deficiencies are not corrected,
    - o unusual courses of action are needed to maintain a high probability of repayment,
    - o the borrower is not generating enough cash flow to repay loan principal; however, it continues to make interest payments,
    - o the Corporation is forced into a subordinated or unsecured position due to flaws in documentation,

(table dollar amounts in thousands, except share data)

  - o loans have been restructured so that payment schedules, terms and collateral represent concessions to the borrower when compared to the normal loan terms,
  - o the Corporation is seriously contemplating foreclosure or legal action due to the apparent deterioration of the loan, and
  - o there is significant deterioration in market conditions to which the borrower is highly vulnerable.

- 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. Other credit characteristics may include the primary source of repayment is gone or there is considerable doubt as to the quality of the secondary sources of repayment. The possibility of loss is high, but because of certain important pending factors that may strengthen the loan, loss classification is deferred until the exact status of repayment is known.

- 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.

The following tables summarize the credit quality of the Corporation's loan portfolio, by loan class for the years indicated. Consumer non-performing loans include accruing consumer loans 90-days or more delinquent and consumer non-accrual loans. The entire balance of a loan is considered delinquent if the minimum payment contractually required to be made is not received by the specified date. Loans that evidenced deterioration of credit quality since origination and the probability, at acquisition, that all contractually required payments would not be collected are included in the applicable categories below.

	December 31, 2019							
	Commercial Pass	Commercial Special Mention	Commercial Substandard	Commercial Doubtful	Commercial Loss	Consumer Performing	Consumer Non Performing	Total
Commercial and industrial loans	$ 1,956,985	$ 81,179	$ 71,715	$ —	$ —	$ —	$ —	$ 2,109,879
Agriculture production financing and other loans to farmers	78,558	5,626	9,677	—	—	—	—	93,861
Real estate loans:								
Construction	749,249	1,613	1,634	—	—	35,072	—	787,568
Commercial and farmland	2,894,366	57,776	98,575	—	—	1,981	—	3,052,698
Residential	196,710	877	8,075	—	—	932,743	4,812	1,143,217
Home equity	24,211	257	682	—	—	562,507	1,327	588,984
Individuals' loans for household and other personal expenditures	—	—	—	—	—	135,944	45	135,989
Public finance and other commercial loans	547,114	—	—	—	—	—	—	547,114
Loans	$ 6,447,193	$ 147,328	$ 190,358	$ —	$ —	$ 1,668,247	$ 6,184	$ 8,459,310

	December 31, 2018							
	Commercial Pass	Commercial Special Mention	Commercial Substandard	Commercial Doubtful	Commercial Loss	Consumer Performing	Consumer Non Performing	Total
Commercial and industrial loans	$ 1,660,879	$ 23,246	$ 42,539	$ —	—	$ —	$ —	$ 1,726,664
Agriculture production financing and other loans to farmers	78,446	5,966	7,992	—	—	—	—	92,404
Real estate loans:								
Construction	492,358	2,185	24,224	—	—	25,419	1,543	545,729
Commercial and farmland	2,669,491	76,037	84,288	—	—	2,285	1	2,832,102
Residential	170,075	7,373	2,076	—	—	782,080	4,817	966,421
Home equity	24,653	535	457	—	—	500,996	1,516	528,157
Individuals' loans for household and other personal expenditures	—	—	—	—	—	99,741	47	99,788
Public finance and other commercial loans	432,849	—	353	—	—	—	—	433,202
Loans	$ 5,528,751	$ 115,342	$ 161,929	$ —	$ —	$ 1,410,521	$ 7,924	$ 7,224,467

(table dollar amounts in thousands, except share data)

The tables below show a past due aging of the Corporation's loan portfolio, by loan class, for the years indicated:

	December 31, 2019						
	Current	30-59 Days Past Due	60-89 Days Past Due	Loans 90 Days or More Past Due And Accruing	Non-Accrual	Total Past Due & Non-Accrual	Total
Commercial and industrial loans	$ 2,105,445	$ 3,039	$ 136	$ 4	$ 1,255	$ 4,434	$ 2,109,879
Agriculture production financing and other loans to farmers	93,678	—	—	—	183	183	93,861
Real estate loans:							
Construction	784,961	1,630	—	—	977	2,607	787,568
Commercial and farmland	3,043,318	2,324	49	—	7,007	9,380	3,052,698
Residential	1,133,476	4,290	367	22	5,062	9,741	1,143,217
Home equity	584,023	2,960	538	42	1,421	4,961	588,984
Individuals' loans for household and other personal expenditures	135,399	440	105	1	44	590	135,989
Public finance and other commercial loans	547,114	—	—	—	—	—	547,114
Loans	$ 8,427,414	$ 14,683	$ 1,195	$ 69	$ 15,949	$ 31,896	$ 8,459,310

	December 31, 2018						
	Current	30-59 Days Past Due	60-89 Days Past Due	Loans 90 Days or More Past Due And Accruing	Non-Accrual	Total Past Due & Non-Accrual	Total
Commercial and industrial loans	$ 1,723,337	$ 1,093	$ 182	$ 249	$ 1,803	$ 3,327	$ 1,726,664
Agriculture production financing and other loans to farmers	89,440	2,285	—	—	679	2,964	92,404
Real estate loans:							
Construction	535,520	64	—	1,478	8,667	10,209	545,729
Commercial and farmland	2,822,515	1,253	178	—	8,156	9,587	2,832,102
Residential	959,252	1,756	430	17	4,966	7,169	966,421
Home equity	524,198	2,164	207	107	1,481	3,959	528,157
Individuals' loans for household and other personal expenditures	99,499	179	64	4	42	289	99,788
Public finance and other commercial loans	432,848	—	—	—	354	354	433,202
Loans	$ 7,186,609	$ 8,794	$ 1,061	$ 1,855	$ 26,148	$ 37,858	$ 7,224,467

On occasion, borrowers experience declines in income and cash flow. As a result, these borrowers seek to reduce contractual cash outlays including debt payments. Concurrently, in an effort to preserve and protect its earning assets, specifically troubled loans, the Corporation works to maintain its relationship with certain customers who are experiencing financial difficulty by contractually modifying the borrower's debt agreement with the Corporation. In certain loan restructuring situations, the Corporation may grant a concession to a debtor experiencing financial difficulty, resulting in a trouble debt restructuring. A concession is deemed to be granted when, as a result of the restructuring, the Corporation does not expect to collect all original amounts due, including interest accrued at the original contract rate. If the payment of principal at original maturity is primarily dependent on the value of collateral, the current value of the collateral is considered in determining whether the principal will be paid.

The following tables summarize troubled debt restructures in the Corporation's loan portfolio that occurred during the periods ended December 31, 2019 and 2018:

	December 31, 2019		
	Pre-Modification Recorded Balance	Post-Modification Recorded Balance	Number of Loans
Real estate loans:			
Residential	$ 636	$ 629	11
Home equity	56	61	2
Total	$ 692	$ 690	13

	December 31, 2018		
	Pre-Modification Recorded Balance	Post-Modification Recorded Balance	Number of Loans
Real estate loans:			
Commercial and farmland	$ 85	$ 85	1
Residential	490	487	11
Home equity	81	81	3
Individuals' loans for household and other personal expenditures	65	66	3
Total	$ 721	$ 719	18

(table dollar amounts in thousands, except share data)

The following tables summarize the recorded investment of troubled debt restructures as of December 31, 2019 and 2018, by modification type, that occurred during the years indicated:

	December 31, 2019			
	Term Modification	Rate Modification	Combination	Total Modification
Real estate loans:				
Residential	$ 95	$ 87	$ 432	$ 614
Home equity	—	—	61	61
Total	$ 95	$ 87	$ 493	$ 675

	December 31, 2018			
	Term Modification	Rate Modification	Combination	Total Modification
Real estate loans:				
Commercial and farmland	$ 85	—	—	$ 85
Residential	—	$ 209	$ 239	448
Home equity	106	74	—	180
Individuals' loans for household and other personal expenditures	58	6	—	64
Total	$ 249	$ 289	$ 239	$ 777

Loans secured by 1- 4 family residential real estate made up 100 percent of the post-modification balances of the troubled debt restructured loans that occurred during the twelve months ending December 31, 2019. The same classification made up 79 percent of the post-modification balance of the troubled debt restructured loans for the twelve months ending December 31, 2018.

The following tables summarize troubled debt restructures that occurred during the twelve months ended December 31, 2019 and 2018, that subsequently defaulted during the period indicated and remained in default at period end. For purposes of this schedule, a loan is considered in default if it is 30-days or more past due.

	Twelve Months Ended December 31, 2019	
	Number of Loans	Recorded Balance
Real estate loans:		
Residential	1	$ 37
Total	1	$ 37

	Twelve Months Ended December 31, 2018	
	Number of Loans	Recorded Balance
Real estate loans:		
Residential	2	$ 75
Total	2	$ 75

For potential consumer loan restructures, impairment evaluation occurs prior to modification. Any subsequent impairment is addressed through the charge-off process or through a specific reserve. Consumer troubled debt restructures are generally included in the general historical allowance for loan loss at the post modification balance. Consumer non-accrual and delinquent troubled debt restructures are also considered in the calculation of the non-accrual and delinquency trend environmental allowance allocation. Consumer loans secured by residential real estate properties for which formal foreclosure proceedings are in process totaled $1,033,000 and $800,000 at December 31, 2019 and 2018, respectively.

Commercial troubled debt restructured loans risk graded special mention, substandard, doubtful and loss are individually evaluated for impairment under ASC 310. Any resulting specific reserves are included in the allowance for loan losses. Commercial 30 - 89 day delinquent troubled debt restructures are included in the calculation of the delinquency trend environmental allowance allocation. With the exception of the acquired loans excluded from the allowance for loan losses, all commercial non-impaired loans, including non-accrual and 90-days or more delinquents, are included in the ASC 450 loss estimate.

(table dollar amounts in thousands, except share data)

NOTE 6

ACCOUNTING FOR CERTAIN LOANS ACQUIRED IN A PURCHASE

Purchase Credit Impaired Loans are included in NOTE 5. LOANS AND ALLOWANCE of these Notes to Consolidated Financial Statements. As described in NOTE 5, purchased loans are recorded at the acquisition date fair value, which could result in a fair value discount or premium. Purchased loans with evidence of credit deterioration since origination and for which it is probable at the date of acquisition that the acquirer will not collect all contractually required principal and interest payments are accounted for under ASC 310-30, *Loans Acquired with Deteriorated Credit Quality*. The difference between contractually required payments and the cash flows expected to be collected at acquisition is referred to as the nonaccretable difference. The accretable portion of the fair value discount or premium is the difference between the expected cash flows and the net present value of expected cash flows, with such difference accreted into earnings over the term of the loans.

The outstanding balance of purchased credit impaired loans as of December 31, 2019 was $25.3 million which had a carrying amount of $16.1 million and $124,000 of related allowance for loan losses. As of December 31, 2018, the outstanding balance of purchased credit impaired loans was $26.3 million with a carrying amount of $17.3 million with no required allowance for loan losses. As customer cash flow expectations improve, nonaccretable yield can be reclassified to accretable yield. The accretable amount, or income expected to be collected, and reclassifications from nonaccretable, are identified in the table below.

	Twelve Months Ended December 31, 2019	Twelve Months Ended December 31, 2018	Twelve Months Ended December 31, 2017
Beginning balance	$ 2,143	$ 2,890	$ 3,950
Additions	576	—	1,608
Accretion	(2,387)	(4,118)	(6,749)
Reclassification from nonaccretable	1,965	3,387	4,748
Disposals	(165)	(16)	(667)
Ending balance	$ 2,132	$ 2,143	$ 2,890

The following table presents loans acquired during the period ending December 31, 2019, for which it was probable at acquisition that all contractually required payments would not be collected. There were no loans acquired during the period ending December 31, 2018.

	2019
	MBT
Contractually required payments receivable at acquisition date	$ 6,840
Nonaccretable difference	2,733
Expected cash flows at acquisition date	4,107
Accretable difference	576
Basis in loans at acquisition date	$ 3,531

NOTE 7

PREMISES AND EQUIPMENT

The following table summarizes the Corporation's premises and equipment as of December 31, 2019 and 2018:

	2019	2018
Cost at December 31:		
Land	$ 25,227	$ 21,762
Buildings and Leasehold Improvements	162,391	125,366
Equipment	124,327	86,498
Total Cost	311,945	233,626
Accumulated Depreciation and Amortization	(198,890)	(140,206)
Net	$ 113,055	$ 93,420

The MBT acquisition on September 1, 2019 resulted in additions to premises and equipment of $21,664,000. Details regarding the acquisition are discussed in NOTE 2. ACQUISITION of these Notes to Consolidated Financial Statements.

The Corporation is committed under various non-cancelable lease contracts for certain subsidiary office facilities and equipment. Details regarding the lease contracts are discussed in NOTE 10. LEASES of these Notes to Consolidated Financial Statements.

(table dollar amounts in thousands, except share data)

NOTE 8

GOODWILL

Goodwill is recorded on the acquisition date of an entity. During the one-year measurement period, the Corporation may record subsequent adjustments to goodwill for provisional amounts recorded at the acquisition date. The MBT acquisition on September, 1, 2019 resulted in
$98,563,000 of goodwill, which includes an addition of $719,000. This addition was recorded in the fourth quarter of 2019 as a measurement period adjustment. Details regarding the MBT acquisition is discussed in NOTE 2. ACQUISITION of these Notes to Consolidated Financial Statements.

No impairment loss was recorded in 2019 or 2018. The Corporation tested goodwill for impairment during 2019 and 2018. In both valuations, the fair value exceeded the Corporation's carrying value; therefore, it was concluded goodwill is not impaired. For additional details related to impairment testing, see the "GOODWILL" section of Management's Discussion and Analysis of Financial Condition and Results of Operations included as Item 7 of this Annual Report on Form 10-K.

	2019		2018	
Balance, January 1	$	445,355	$	445,355
Goodwill acquired		97,844		—
Measurement period adjustment		719	$	—
Balance, December 31	$	543,918	$	445,355

NOTE 9

OTHER INTANGIBLES

Core deposit intangibles and other intangibles are recorded on the acquisition date of an entity. During the one-year measurement period, the Corporation may record subsequent adjustments to these intangibles for provisional amounts recorded at the acquisition date. The MBT acquisition on September 1, 2019 resulted in a core deposit intangible of $16,527,000. Details regarding the MBT acquisition are discussed in NOTE 2. ACQUISITION of these Notes to Consolidated Financial Statements.

The carrying basis and accumulated amortization of recognized core deposit and other intangibles are noted below.

	2019		2018	
Gross carrying amount	$	85,869	$	85,869
Core deposit intangible acquired		16,527		—
Accumulated amortization		(67,434)		(61,440)
Core Deposit and Other Intangibles	$	34,962	$	24,429

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 to ten years. Amortization expense for the years ended December 31, 2019, 2018 and 2017, was $5,994,000, $6,719,000 and $5,647,000, respectively.

Estimated future amortization expense is summarized as follows:

	Amortization Expense	
2020	$	5,987
2021		5,429
2022		5,027
2023		4,827
2024		4,241
After 2024		9,451
	$	34,962

(table dollar amounts in thousands, except share data)

NOTE 10

LEASES

The Corporation adopted ASU No. 2016-02 - *Leases (Topic 842)*, as amended, as of January 1, 2019 for certain retail branches, office space, land and equipment. The Corporation elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed the Corporation to carry forward the historical lease classification. Operating leases are included in the operating lease right-of use ("ROU") asset, which is included in other assets and the lease liability is included in other liabilities in our condensed balance sheets. The Corporation does not have any finance leases.

ROU assets represent the Corporation's right to use an underlying asset for the lease term and lease liabilities represent the Corporation's obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of the Corporation's leases do not provide an implicit rate, the Corporation typically uses its incremental borrowing rate based on information available at commencement date in determining the present value of lease payments. Lease terms may include options to extend or terminate the lease. The exercise of such lease renewal options is at the Corporation's sole discretion and is not included in the present value of lease obligations unless it is reasonably certain that the option will be exercised. The depreciable life of assets and leasehold improvements are limited by the expected lease term, unless there is a transfer of title or purchase option reasonably certain of exercise. Certain of the Corporation's lease agreements include rental payments adjusted periodically for inflation. The Corporation's lease agreements do not contain any material residual value guarantees or material restrictive covenants. The Corporation does not have any material sublease agreements.

Supplemental balance sheet information related to leases is presented in the table below as of December 31, 2019.

	December 31, 2019
Operating lease assets	$ 20,747
Total lease assets	$ 20,747
Operating lease liabilities	$ 21,421
Total Lease liabilities	$ 21,421
Weighted average remaining lease term (years)	
Operating leases	8.9
Weighted average discount rate	
Operating leases	3.4%

The table below presents the components of lease expense for the period indicated.

	Twelve Months Ended December 31, 2019
Lease Cost:	
Operating lease cost	$ 3,617
Short-term lease cost	204
Variable lease cost	948
Sublease income	$ (13)
Total lease cost	$ 4,756

Supplemental cash flow information related to leases is presented in the tables below.

Maturity of lease liabilities	**Operating Leases**
2020	$ 3,434
2021	3,157
2022	3,033
2023	2,654
2024	2,585
2025 and after	10,198
Total lease payments	$ 25,061
Less: Present value discount	3,640
Present value of lease liabilities	$ 21,421

Other Information	**Twelve Months Ended December 31, 2019**
Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from operating leases	$ 3,422
ROU assets obtained in exchange for new operating lease liabilities	$ 23,529

(table dollar amounts in thousands, except share data)

NOTE 11

DEPOSITS

The composition of the deposit portfolio is included in the table below for the years indicated:

	December 31, 2019	December 31, 2018
Demand deposits	$ 5,250,568	$ 3,985,178
Savings deposits	2,896,177	2,282,701
Certificates and other time deposits of $100,000 or more	736,843	593,592
Other certificates and time deposits	741,759	646,682
Brokered deposits	214,609	246,440
Total deposits	$ 9,839,956	$ 7,754,593

At December 31, 2019 and 2018, deposits exceeding the FDIC's Standard Maximum Deposit Insurance Amount of $250,000 were $5.1 billion and $3.8 billion, respectively.

At December 31, 2019, the contractual maturities of time deposits are summarized as follows:

	Certificates and Other Time Deposits
2020	$ 1,489,274
2021	118,919
2022	47,731
2023	24,636
2024	11,934
After 2024	717
	$ 1,693,211

NOTE 12

TRANSFERS ACCOUNTED FOR AS SECURED BORROWINGS

The collateral pledged for all repurchase agreements that are accounted for as secured borrowings as of December 31, 2019 and 2018 were:

	December 31, 2019				
	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	$ 178,732	$ —	$ 7,672	$ 1,542	$ 187,946

	December 31, 2018				
	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	$ 104,883	$ 1,014	$ 7,615	$ —	$ 113,512

(table dollar amounts in thousands, except share data)

NOTE 13

BORROWINGS

The following table summarizes the Corporation's borrowings as of December 31, 2019 and 2018:

	December 31, 2019	December 31, 2018
Federal funds purchased	$ 55,000	$ 104,000
Securities sold under repurchase agreements	187,946	113,512
Federal Home Loan Bank advances	351,072	314,986
Subordinated debentures and term loans	138,685	138,463
Total Borrowings	$ 732,703	$ 670,961

Securities sold under repurchase agreements consist of obligations of the Bank to other parties and are secured by U.S. Government-Sponsored Enterprise obligations. The maximum amount of outstanding agreements at any month-end during 2019 and 2018 totaled $191,603,000 and $143,016,000, respectively, and the average of such agreements totaled $136,274,000 and $124,762,000 during 2019 and 2018, respectively.

Contractual maturities of borrowings as of December 31, 2019, are as follows:

Maturities in Years Ending December 31:	Federal Funds Purchased	Securities Sold Under Repurchase Agreements	Federal Home Loan Bank Advances	Subordinated Debentures and Term Loans
2020	$ 55,000	$ 187,946	$ 41,370	$ —
2021	—	—	55,097	—
2022	—	—	95,097	—
2023	—	—	115,097	—
2024	—	—	97	—
After 2024	—	—	44,314	142,322
ASC 805 fair value adjustments at acquisition	—	—	—	(3,637)
	$ 55,000	$ 187,946	$ 351,072	$ 138,685

The terms of a security agreement with the FHLB require the Corporation to pledge, as collateral for advances, qualifying first mortgage loans, investment securities and multi-family loans in an amount equal to at least 145 percent of these advances depending on the type of collateral pledged. At December 31, 2019, the outstanding FHLB advances had interest rates from 1.07 to 5.09 percent and are subject to restrictions or penalties in the event of prepayment. The total available remaining borrowing capacity from the FHLB at December 31, 2019, was $638,668,000. As of December 31, 2019, the Corporation had $55,000,000 of putable advances with the FHLB.

Subordinated Debentures and Term Loans. As of December 31, 2019 and 2018, subordinated debentures and term loans totaled $138,685,000 and $138,463,000, respectively.

- *First Merchants Capital Trust II.* The subordinated debenture was entered into on July 2, 2007 for $56,702,000. On August 10, 2015, the Corporation completed the cancellation of $5 million of subordinated debentures at a gain of $1,250,000. As of December 31, 2019, $51,702,000 of subordinated debentures remain outstanding with a maturity date of September 15, 2037. The Corporation could not redeem the debenture prior to September 15, 2012, and redemption is subject to the prior approval of the Board of Governors of the Federal Reserve System, as required by law or regulation. Interest was fixed at 6.495 percent for the period from the date of issuance through September 15, 2012; interest is now an annual floating rate equal to the three-month LIBOR plus 1.56 percent, reset quarterly. Interest is payable in March, June, September and December of each year. The interest rate at December 31, 2019 and 2018 was 3.45 percent and 4.35 percent, respectively. The Corporation holds all of the outstanding common securities of First Merchants Capital Trust II.

- *Ameriana Capital Trust I.* On December 31, 2015 the Corporation acquired Ameriana Capital Trust I in conjunction with its acquisition of Ameriana Bancorp, Inc. The subordinated debentures of Ameriana Capital Trust I were entered into in March 2006 for $10,310,000 and have a maturity of March 2036. Ameriana could not redeem the debenture prior to March 2011, and redemption is subject to the prior approval of the Board of Governors of the Federal Reserve System, as required by law or regulation. The interest rate is equal to the three-month LIBOR plus 1.50 percent, reset quarterly. Interest is payable in March, June, September and December of each year. The interest rate at December 31, 2019 and 2018 was 3.39 percent and 4.29 percent, respectively. The Corporation holds all of the outstanding common securities of Ameriana Capital Trust I.

- *Grabill Capital Trust I.* On July 14, 2017 the Corporation acquired Grabill Capital Trust I in conjunction with its acquisition of Independent Alliance Banks, Inc. The subordinated debentures of Grabill Capital Trust I were entered into in June 2004 for $10,310,000 and have a maturity of July 23, 2034. IAB could not redeem the debenture prior to July 2009, and redemption is subject to the prior approval of the Board of Governors of the Federal Reserve System, as required by law or regulation. The interest rate is equal to the three-month LIBOR plus 2.60 percent, reset quarterly. Interest is payable in January, April, July and October of each year. The interest rate at December 31, 2019 and 2018 was 4.53 percent and 5.08 percent, respectively. The Corporation holds all of the outstanding common securities of Grabill Capital Trust I.

- On November 1, 2013, the Corporation completed the private issuance and sale to four institutional investors of an aggregate of $70 million of debt comprised of (a) 5.00 percent Fixed-to-Floating Rate Senior Notes due 2028 in the aggregate principal amount of $5 million (the "Senior Debt") and (b) 6.75 percent Fixed-to-Floating Rate Subordinated Notes due 2028 in the aggregate principal amount of $65 million (the "Subordinated Debt"). The interest rate on the Senior Debt and Subordinated Debt remains fixed for the first ten (10) years and will become floating thereafter. Once the rates convert to floating on October 30, 2023, the Senior Debt will have an annual floating rate equal to the three-month LIBOR plus 2.345 percent and the Subordinated Debt will have an annual floating rate equal to the three-month LIBOR plus 4.095 percent. The Corporation has an option to redeem the Subordinated Debt in whole or in part at a redemption price equal to 100 percent of the principal amount of the redeemed Subordinated Notes, plus accrued and unpaid interest to the date of the redemption. The option of redemption is subject to the approval of the Federal Reserve Board. The Corporation has an option to redeem the Senior Debt in whole or in part at a redemption price equal to 100 percent of the principal amount of the redeemed Senior Notes, plus accrued and unpaid interest to the date of the redemption; provided, however, that no Subordinated Notes (as defined in the Issuing and Paying Agency Agreement) may remain outstanding subsequent to any early redemption of Senior Notes. The Subordinated Debt and the Senior Debt options to redeem begin with the interest payment date on October 30, 2023, or on any scheduled interest payment date thereafter. The Senior Debt agreement contains certain customary representations and warranties and financial and negative covenants. As of December 31, 2019 and 2018 the Corporation was in compliance with these covenants.

NOTE 14

DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

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.

Cash Flow Hedges of Interest Rate Risk

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 this objective, 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, 2019, the Corporation had four interest rate swaps with a notional amount of $46.0 million. As of December 31, 2018, the Corporation had four interest rate swaps with a notional amount of $46.0 million and one interest rate cap with a notional amount of $13.0 million.

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 and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During 2019, $26.0 million of the interest rate swaps were used to hedge the variable cash outflows (LIBOR-based) associated with existing trust preferred securities when the outflows converted from a fixed rate to variable rate in September 2012. In addition, the remaining $20.0 million of interest rate swaps were used to hedge the variable cash outflows (LIBOR-based) associated with two Federal Home Loan Bank advances. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. During the years ended December 31, 2019 and 2018, the Corporation did not recognize any ineffectiveness.

Amounts reported in accumulated other comprehensive income 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 expects to reclassify $490,000 from accumulated other comprehensive income to interest expense.

(table dollar amounts in thousands, except share data)

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. As of December 31, 2019, the notional amount of customer-facing swaps was approximately $692,287,000. This amount is offset with third party counterparties, as described above.

Fair Values of Derivative Instruments on the Balance Sheet

The table below presents the fair value of the Corporation's derivative financial instruments as well as their classification on the Balance Sheet as of December 31, 2019 and December 31, 2018.

	Asset Derivatives				Liability Derivatives			
	December 31, 2019		December 31, 2018		December 31, 2019		December 31, 2018	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments:								
Interest rate contracts	Other Assets	$ —	Other Assets	$ 135	Other Liabilities	$ 1,444	Other Liabilities	$ 688
Derivatives not designated as hedging instruments:								
Interest rate contracts	Other Assets	$ 27,855	Other Assets	$ 11,948	Other Liabilities	$ 27,855	Other Liabilities	$ 11,948

The amount of gain (loss) recognized in other comprehensive income 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 on Derivative (Effective Portion) For the Year Ended December 31, 2019	2018
Interest rate products	$ (1,072)	$ 247

Effect of Derivative Instruments on the Income Statement

The tables below present the effect of the Corporation's derivative financial instruments on the Income Statement for the years ended December 31, 2019, 2018 and 2017.

Derivatives Designated as Hedging Instruments under FASB ASC 815-10	Location of Loss Reclassified from Accumulated Other Comprehensive Income (Effective Portion)	Amount of Loss Reclassified from Other Comprehensive Income into Income (Effective Portion) 2019	2018	2017
Interest rate contracts	Interest expense	$ (334)	$ (470)	$ (985)

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/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 December 31, 2019, the termination value of derivatives in a net liability position related to these agreements was $28,734,000. As of December 31, 2019, the Corporation has minimum collateral posting thresholds with certain of its derivative counterparties and has posted collateral of $42,255,000. If the Corporation had breached any of these provisions at December 31, 2019, it could have been required to settle its obligations under the agreements at their termination value.

NOTE 15

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 or 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. The Corporation currently has no securities classified within Level 1 of the hierarchy. 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 government-sponsored agency and mortgage-backed securities and state and municipal 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, 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.

(table dollar amounts in thousands, except share data)

Interest Rate Derivative Agreements

See information regarding the Corporation's interest rate derivative products in NOTE 14. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES of these Notes to Consolidated 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 December 31, 2019 and 2018.

		Fair Value Measurements Using:		
		Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
December 31, 2019	Fair Value	(Level 1)	(Level 2)	(Level 3)
Available for sale securities:				
U.S. Government-sponsored agency securities	$ 38,875	$ —	$ 38,875	$ —
State and municipal	899,796	—	896,938	2,858
U.S. Government-sponsored mortgage-backed securities	851,323	—	851,319	4
Corporate obligations	31	—	—	31
Interest rate swap asset	27,855	—	27,855	—
Interest rate swap liability	29,299	—	29,299	—

		Fair Value Measurements Using:		
		Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
December 31, 2018	Fair Value	(Level 1)	(Level 2)	(Level 3)
Available for sale securities:				
U.S. Government-sponsored agency securities	$ 13,582	$ —	$ 13,582	$ —
State and municipal	606,135	—	602,842	3,293
U.S. Government-sponsored mortgage-backed securities	522,447	—	522,443	4
Corporate obligations	31	—	—	31
Interest rate swap asset	11,948	—	11,948	—
Interest rate cap	135	—	135	—
Interest rate swap liability	12,636	—	12,636	—

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 year ended December 31, 2019 and 2018.

	Available for Sale Securities	
	For The Year Ended	
	December 31, 2019	December 31, 2018
Beginning Balance	$ 3,328	$ 3,978
Included in other comprehensive income	80	(49)
Principal payments	(515)	(601)
Ending balance	$ 2,893	$ 3,328

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 December 31, 2019 or 2018.

TRANSFERS BETWEEN LEVELS

There were no transfers in or out of Level 3 during 2019 or 2018.

(table dollar amounts in thousands, except share data)

NONRECURRING MEASUREMENTS

Following is a description of valuation methodologies used for instruments measured at fair value on a non-recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such instruments pursuant to the valuation hierarchy for year ended December 31, 2019 and 2018.

		Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
December 31, 2019	**Fair Value**	**(Level 1)**	**(Level 2)**	**(Level 3)**
Impaired Loans (collateral dependent)	$ 5,653	—	—	$ 5,653
Other real estate owned	$ 194	—	—	$ 194

		Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
December 31, 2018	**Fair Value**	**(Level 1)**	**(Level 2)**	**(Level 3)**
Impaired Loans (collateral dependent)	$ 11,866	—	—	$ 11,866
Other real estate owned	$ 657	—	—	$ 657

Impaired Loans (collateral dependent)

Loans for which it is probable that the Corporation will not collect all principal and interest due according to contractual terms are measured for impairment. Allowable methods for determining the amount of impairment include estimating fair value of the collateral for collateral dependent loans. If the impaired loan is identified as collateral dependent, then the fair value method of measuring the amount of impairment is utilized. This method requires obtaining a current independent appraisal of the collateral and applying a discount factor to the value. A portion of the allowance for loan losses is allocated to impaired loans if the value of such loans is deemed to be less than the unpaid balance. If these allocations cause the allowance for loan losses to increase, such increase is reported as a component of the provision for loan losses. Loan losses are charged against the allowance when management believes the uncollectability of the loan is confirmed. During 2018 and 2019, certain impaired loans were partially charged off or re-evaluated. Impaired loans that are collateral dependent are classified within Level 3 of the fair value hierarchy when impairment is determined using the fair value method.

Other Real Estate Owned

The fair value for impaired loans and other real estate owned is measured based on the value of the collateral securing those loans or real estate and is determined using several methods. The fair value of real estate is generally determined 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 discounted 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.

(table dollar amounts in thousands, except share data)

UNOBSERVABLE (LEVEL 3) INPUTS

The following table presents quantitative information about unobservable inputs used in recurring and nonrecurring Level 3 fair value measurements, other than goodwill, at December 31, 2019 and 2018.

December 31, 2019	Fair Value		Valuation Technique	Unobservable Inputs	Range (Weighted-Average)
State and municipal securities	$	2,858	Discounted cash flow	Maturity Call Date US Muni BQ curve Discount rate	1 month to 15 years A- to BBB- 2% - 5%
Corporate obligations and U.S. Government-sponsored mortgage backed securities	$	35	Discounted cash flow	Risk free rate plus Premium for illiquidity	3 month LIBOR plus 200 bps
Impaired loans (collateral dependent)	$	5,653	Collateral based measurements	Discount to reflect current market conditions and ultimate collectability	0% - 10% (1%)
Other real estate owned	$	194	Appraisals	Discount to reflect current market conditions	0% - 37% (37%)

December 31, 2018	Fair Value		Valuation Technique	Unobservable Inputs	Range (Weighted-Average)
State and municipal securities	$	3,293	Discounted cash flow	Maturity Call Date US Muni BQ curve Discount rate	1 month to 20 years A- to BBB- .69% - 5%
Corporate obligations and U.S. Government-sponsored mortgage backed securities	$	35	Discounted cash flow	Risk free rate plus Premium for illiquidity	3 month LIBOR plus 200 bps
Impaired loans (collateral dependent)	$	11,866	Collateral based measurements	Discount to reflect current market conditions and ultimate collectability	0% - 10% (6%)
Other real estate owned	$	657	Appraisals	Discount to reflect current market conditions	0% - 10% (4%)

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, 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.

(table dollar amounts in thousands, except share data)

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 December 31, 2019 and 2018.

	2019			
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets at December 31:				
Cash and cash equivalents	$ 177,201	$ 177,201	$ —	$ —
Interest-bearing time deposits	118,263	118,263	—	—
Investment securities available for sale	1,790,025	—	1,787,132	2,893
Investment securities held to maturity	806,038	—	799,884	27,682
Loans held for sale	9,037	—	9,037	—
Loans	8,379,026	—	—	8,335,340
Federal Home Loan Bank stock	28,736	—	28,736	—
Interest rate swap asset	27,855	—	27,855	—
Interest receivable	48,901	—	48,901	—
Liabilities at December 31:				
Deposits	$ 9,839,956	$ 8,146,745	$ 1,675,202	$ —
Borrowings:				
Federal funds purchased	55,000	—	55,000	—
Securities sold under repurchase agreements	187,946	—	187,801	—
Federal Home Loan Bank advances	351,072	—	352,581	—
Subordinated debentures and term loans	138,685	—	123,571	—
Interest rate swap liability	29,299	—	29,299	—
Interest payable	6,754	—	6,754	—

	2018			
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets at December 31:				
Cash and cash equivalents	$ 139,247	$ 139,247	$ —	$ —
Interest-bearing time deposits	36,963	36,963	—	—
Investment securities available for sale	1,142,195	—	1,138,867	3,328
Investment securities held to maturity	490,387	—	481,377	7,840
Loans held for sale	4,778	—	4,778	—
Loans	7,143,915	—	—	7,004,193
Federal Home Loan Bank stock	24,588	—	24,588	—
Interest rate swap asset	12,083	—	12,083	—
Interest receivable	40,881	—	40,881	—
Liabilities at December 31:				
Deposits	$ 7,754,593	$ 6,267,879	$ 1,464,129	$ —
Borrowings:				
Federal funds purchased	104,000	—	104,000	—
Securities sold under repurchase agreements	113,512	—	113,437	—
Federal Home Loan Bank advances	314,986	—	318,728	—
Subordinated debentures and term loans	138,463	—	127,298	—
Interest rate swap liability	12,636	—	12,636	—
Interest payable	5,607	—	5,607	—

(table dollar amounts in thousands, except share data)

NOTE 16

COMMITMENTS AND CONTINGENT LIABILITIES

In the normal course of business there are outstanding commitments and contingent liabilities, such as commitments to extend credit and standby letters of credit, which are not included in the accompanying financial statements. The Corporation's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit and standby letters of credit is represented by the contractual or notional amount of those instruments. The Bank uses the same credit policies in making such commitments as they do for instruments that are included in the consolidated balance sheets.

Financial instruments, whose contract amount represents credit risk as of December 31, were as follows:

	2019	2018
Amounts of commitments:		
Loan commitments to extend credit	$ 3,005,064	$ 2,684,806
Standby letters of credit	$ 30,200	$ 32,862

Commitments to extend credit are agreements to lend to a customer, as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation. Collateral held varies, but may include accounts receivable, inventory, property and equipment, and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party.

The Corporation and subsidiaries are also subject to claims and lawsuits, which arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the consolidated financial position of the Corporation.

NOTE 17

ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table summarizes the changes in the balances of each component of accumulated other comprehensive income (loss), net of tax, as of December 31, 2019 and 2018:

	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, 2018	$ (6,343)	$ (559)	$ (14,520)	$ (21,422)
Other comprehensive income before reclassifications	48,703	(846)	4,579	52,436
Amounts reclassified from accumulated other comprehensive income	(3,488)	264	84	(3,140)
Period change	45,215	(582)	4,663	49,296
Balance at December 31, 2019	$ 38,872	$ (1,141)	$ (9,857)	$ 27,874
Balance at December 31, 2017	$ 8,970	$ (1,125)	$ (10,753)	$ (2,908)
Other comprehensive income before reclassifications	(13,872)	437	(1,435)	(14,870)
Amounts reclassified from accumulated other comprehensive income	(3,373)	371	(16)	(3,018)
Period change	(17,245)	808	(1,451)	(17,888)
Reclassification adjustment under ASU 2018-02	1,932	(242)	(2,316)	(626)
Balance at December 31, 2018	$ (6,343)	$ (559)	$ (14,520)	$ (21,422)

(table dollar amounts in thousands, except share data)

The following table presents the reclassification adjustments out of accumulated other comprehensive income (loss) that were included in net income in the Consolidated Statements of Income for the years ended December 31, 2019, 2018 and 2017:

Details about Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified from Accumulated Other Comprehensive Income (Loss) For the Year Ended December 31, 2019	2018	2017	Affected Line Item in the Statements of Income
Unrealized gains (losses) on available for sale securities (1)				
Realized securities gains reclassified into income	$ 4,415	$ 4,269	$ 2,631	Other income - net realized gains on sales of available for sale securities
Related income tax expense	(927)	(896)	(921)	Income tax expense
	$ 3,488	$ 3,373	$ 1,710	
Unrealized gains (losses) on cash flow hedges (2)				
Interest rate contracts	$ (334)	$ (470)	$ (985)	Interest expense - subordinated debentures and term loans
Related income tax benefit	70	99	345	Income tax expense
	$ (264)	$ (371)	$ (640)	
Unrealized gains (losses) on defined benefit plans				
Amortization of net loss and prior service costs	$ (106)	$ 20	$ 806	Other expenses - salaries and employee benefits
Related income tax benefit (expense)	22	(4)	(209)	Income tax expense
	$ (84)	$ 16	$ 597	
Total reclassifications for the period, net of tax	$ 3,140	$ 3,018	1,667	

(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 4. INVESTMENT SECURITIES.

(2) For additional detail related to unrealized gains (losses) on cash flow hedges and related amounts reclassified from accumulated other comprehensive income see NOTE 14. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES.

NOTE 18

REGULATORY CAPITAL AND DIVIDENDS

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 and tier 1 capital 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 was effective for the Corporation on January 1, 2015. Basel III requires the Corporation and the Bank to maintain a minimum ratio of CET1 capital to risk weighted assets, as defined in the regulation. Under the Basel III rules, in order to avoid limitations on capital distributions, including dividends, the Corporation must hold a capital conservation buffer above the adequately capitalized CET1 capital to risk-weighted assets ratio. The capital conservation buffer was phased in from zero percent in 2015 to the fully-implemented 2.50 percent in 2019. Under Basel III, the Corporation and Bank elected to opt-out of including accumulated other comprehensive income in regulatory capital.

(table dollar amounts in thousands, except share data)

As of December 31, 2019, the Bank met all capital adequacy requirements to be considered well capitalized. There is no threshold for well capitalized status for bank holding companies. The Corporation's and Bank's actual and required capital ratios as of December 31, 2019 and December 31, 2018 were as follows:

			Prompt Corrective Action Thresholds			
	Actual		Adequately Capitalized		Well Capitalized	
December 31, 2019	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total risk-based capital to risk-weighted assets						
First Merchants Corporation	$ 1,400,617	14.29%	$ 783,946	8.00%	N/A	N/A
First Merchants Bank	1,267,649	12.87	787,753	8.00	$ 984,691	10.00%
Tier 1 capital to risk-weighted assets						
First Merchants Corporation	$ 1,255,333	12.81%	$ 587,960	6.00%	N/A	N/A
First Merchants Bank	1,187,365	12.06	590,815	6.00	$ 787,753	8.00%
Common equity tier 1 capital to risk-weighted assets						
First Merchants Corporation	$ 1,188,970	12.13%	$ 440,970	4.50%	N/A	N/A
First Merchants Bank	1,187,365	12.06	443,111	4.50	$ 640,049	6.50%
Tier 1 capital to average assets						
First Merchants Corporation	$ 1,255,333	10.54%	$ 476,383	4.00%	N/A	N/A
First Merchants Bank	1,187,365	9.99	475,564	4.00	$ 594,455	5.00%

			Prompt Corrective Action Thresholds			
	Actual		Adequately Capitalized		Well Capitalized	
December 31, 2018	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total risk-based capital to risk-weighted assets						
First Merchants Corporation	$ 1,177,725	14.61%	$ 644,871	8.00%	N/A	N/A
First Merchants Bank	1,092,602	13.46	649,531	8.00	$ 811,914	10.00%
Tier 1 capital to risk-weighted assets						
First Merchants Corporation	$ 1,032,173	12.80%	$ 483,653	6.00%	N/A	N/A
First Merchants Bank	1,012,050	12.47	487,148	6.00	$ 649,531	8.00%
Common equity tier 1 capital to risk-weighted assets						
First Merchants Corporation	$ 966,032	11.98%	$ 362,740	4.50%	N/A	N/A
First Merchants Bank	1,012,050	12.47	365,361	4.50	$ 527,744	6.50%
Tier 1 capital to average assets						
First Merchants Corporation	$ 1,032,173	10.91%	$ 378,379	4.00%	N/A	N/A
First Merchants Bank	1,012,050	10.70	379,397	4.00	$ 472,996	5.00%

Management believes that all of the above 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 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.

Because these measures are not defined in GAAP, they are considered non-GAAP financial measures. 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. For a reconciliation of GAAP measures to regulatory measures (non-GAAP), see additional details within the “Capital” section of Management’s Discussion and Analysis of Financial Condition and Results of Operations included as Item 7 of this Annual Report on Form 10-K.

Dividends

The Corporation's principal source of funds for dividend payments to shareholders is dividends received from the Bank. Banking regulations limit the maximum amount of dividends that a bank may pay without requesting prior approval of regulatory agencies. Under these regulations, the amount of dividends that may be paid in any calendar year is limited to the bank’s retained net income (as defined) for the current year plus those for the previous two years, subject to the capital requirements described above. As of December 31, 2019, the amount available without prior regulatory approval for 2020 dividends from the Corporation’s subsidiaries (both banking and non-banking) was $189,371,000.

Additionally, the Corporation has a Dividend Reinvestment and Stock Purchase Plan, enabling stockholders to elect to have their cash dividends on all shares automatically reinvested in additional shares of the Corporation’s common stock. In addition, stockholders may elect to make optional cash payments up to an aggregate of $5,000 per quarter for the purchase of additional shares of common stock. The stock is credited to participant accounts at fair market value. Dividends are reinvested on a quarterly basis.

Stockholders' Equity

On September 1, 2019, the Corporation acquired 100 percent of MBT. Pursuant to the merger agreement, each MBT shareholder received 0.275 shares of the Corporation's common stock for each outstanding share of MBT common stock held. The Corporation issued approximately 6.4 million shares of common stock, which was valued at approximately $229.9 million. Details regarding the MBT acquisition are discussed in NOTE 2. ACQUISITION of these Notes to Consolidated Financial Statements.

Stock Repurchase Program

On September 3, 2019, the Board of Directors of the Corporation approved a stock repurchase program of up to 3 million shares of the Corporation's outstanding common stock; provided, however, that the total aggregate investment in shares repurchased under the program may not exceed $75 million. On a share basis, the amount of common stock subject to the repurchase program represents approximately 5 percent of the Corporation's outstanding shares. The actual timing, number and share price of shares purchased under the repurchase program will be determined at the Corporation's discretion and will depend upon such factors as the market price of the stock, general market and economic conditions and applicable legal requirements. During 2019, the Corporation repurchased 516,016 shares of common stock for a total amount of $19.0 million at an average price of $36.90. All shares repurchased under the stock repurchase program were retired upon settlement.

NOTE 19

LOAN SERVICING

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The loans are serviced primarily for the Federal Home Loan Mortgage Corporation, Fannie Mae, Federal Home Loan Bank of Cincinnati and Federal Home Loan Bank of Indianapolis, and the unpaid balances totaled $514,294,000, $533,386,000 and $549,618,000 at December 31, 2019, 2018 and 2017, respectively. The amount of capitalized servicing assets is considered immaterial.

NOTE 20

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 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 RSA's 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 retired from the Corporation 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. The Corporation's 2009 ESPP, which was substantially similar to the 2019 ESPP, expired on June 30, 2019.

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 for the years ended December 31, 2019, 2018, and 2017 was $4,115,000, $3,592,000, and $2,827,000, respectively, and has been recognized as a component of salaries and benefits expense in the accompanying CONSOLIDATED STATEMENTS OF INCOME.

Share-based compensation expense recognized in the CONSOLIDATED 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 1.7 percent for the year ended December 31, 2019, based on historical experience.

(table dollar amounts in thousands, except share data)

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. The income tax benefit decrease for the year ended December 31, 2018 was due to the reduction of the corporate federal income tax rate from 35 percent to 21 percent as a result of the Tax Cuts and Jobs Act, which was effective January 1, 2018. On January 1, 2017, the implementation of ASU 2016-09, *Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting* required the income tax effects of awards to be recognized as income tax expense or benefit in the income statement when the awards vest or are settled. Implementation of the ASU resulted in approximately $433,000, $644,000 and $935,000 of income tax benefit for the years ended December 31, 2019, 2018 and 2017, respectively.

	Years Ended December 31,		
	2019	2018	2017
Stock and ESPP Options			
Pre-tax compensation expense	$ 101	$ 109	$ 121
Income tax expense (benefit)	(70)	(97)	(322)
Stock and ESPP option expense, net of income taxes	$ 31	$ 12	$ (201)
Restricted Stock Awards			
Pre-tax compensation expense	$ 4,014	$ 3,483	$ 2,706
Income tax benefit	(1,206)	(1,179)	(1,561)
Restricted stock awards expense, net of income taxes	$ 2,808	$ 2,304	$ 1,145
Total Share-Based Compensation:			
Pre-tax compensation expense	$ 4,115	$ 3,592	$ 2,827
Income tax benefit	(1,276)	(1,276)	(1,883)
Total share-based compensation expense, net of income taxes	$ 2,839	$ 2,316	$ 944

As of December 31, 2019, unrecognized compensation expense related to RSAs was $7,422,000 and is expected to be recognized over weighted-average period of 1.60 years. The Corporation did not have any unrecognized compensation expense related to stock options as of December 31, 2019.

Stock option activity under the Corporation's stock option plans, as of December 31, 2019, and changes during the year ended December 31, 2019, were as follows:

	Number of Shares	Weighted-Average Exercise Price	Weighted Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2019	76,300	$ 12.40	—	$ —
Exercised	(16,950)	$ 8.51	—	$ —
Outstanding December 31, 2019	59,350	$ 13.51	2.45	$ 1,666,694
Vested and Expected to Vest at December 31, 2019	59,350	$ 13.51	2.45	$ 1,666,694
Exercisable at December 31, 2019	59,350	$ 13.51	2.45	$ 1,666,694

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 2019 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 December 31, 2019. 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 years ended December 31, 2019 and 2018 was $495,000 and $1,685,000, respectively. Cash receipts of stock options exercised during 2019 and 2018 were $144,000 and $1,598,000, respectively.

The following table summarizes information on unvested RSAs outstanding as of December 31, 2019:

	Number of Shares	Weighted-Average Grant Date Fair Value
Unvested RSAs at January 1, 2019	344,362	$ 36.80
Granted	125,846	$ 35.84
Forfeited	(2,588)	$ 40.53
Vested	(116,572)	$ 24.03
Unvested RSAs at December 31, 2019	351,048	$ 40.67

The grant date fair value of ESPP options was estimated at the beginning of the October 1, 2019, quarterly offering period of approximately $29,000. The ESPP options vested during the three months ending December 31, 2019, leaving no unrecognized compensation expense related to unvested ESPP options at December 31, 2019.

(table dollar amounts in thousands, except share data)

NOTE 21

PENSION AND OTHER POST RETIREMENT BENEFIT PLANS

The Corporation's defined-benefit pension plans, including non-qualified plans for certain employees, former employees and former non-employee directors, cover approximately 10 percent of the Corporation's employees. In 2005, the Board of Directors of the Corporation approved the curtailment of the accumulation of defined benefits for future services provided by certain participants in the First Merchants Corporation Retirement Plan. No additional pension benefits have been earned by any employees who had not attained both the age of 55 and accrued at least 10 years of vesting service as of March 1, 2005. The benefits are based primarily on years of service and employees' pay near retirement. Contributions are intended to provide not only for benefits attributed to service-to-date, but also for those expected to be earned in the future.

The table below sets forth the plans' funded status and amounts recognized in the consolidated balance sheets at December 31, using measurement dates of December 31, 2019 and 2018.

	2019	2018
Change in Benefit Obligation:		
Benefit obligation at beginning of year	$ 73,193	$ 82,157
Service cost	39	8
Interest cost	2,975	2,816
Actuarial (gain) loss	4,007	(6,129)
Benefits paid	(5,145)	(5,659)
Net transfer in from MBT acquisition	1,701	—
Benefit obligation at end of year	$ 76,770	$ 73,193
Change in Plan Assets:		
Fair value of plan assets at beginning of year	$ 76,736	$ 85,213
Actual return on plan assets	12,972	(3,427)
Employer contributions	558	609
Benefits paid	(5,145)	(5,659)
End of year	85,121	76,736
Funded status at end of year	$ 8,351	$ 3,543
Assets and Liabilities Recognized in the Balance Sheets:		
Deferred tax asset	$ 3,278	$ 3,855
Assets	$ 13,291	$ 7,024
Liabilities	$ 4,940	$ 3,481
Amounts Recognized in Accumulated Other Comprehensive Income Not Yet Recognized as Components of Net Periodic Cost, net of tax, consist of:		
Accumulated loss	$ (9,712)	$ (14,111)
Prior service cost	(325)	(409)
	$ (10,037)	$ (14,520)

The actuarial (gain) loss recognized in 2019 and 2018 was primarily a result of discount rate assumption fluctuations.

The accumulated benefit obligation for all defined benefit plans was $76,770,000 and $73,193,000 at December 31, 2019 and 2018, respectively.

Information for pension plans with an accumulated benefit obligation in excess of plan assets consists solely of the non-qualified plans for certain employees, former employees and former non-employee directors, and is included in the table below.

	December 31, 2019	December 31, 2018
Projected benefit obligation	$ 4,940	$ 3,481
Accumulated benefit obligation	$ 4,940	$ 3,481
Fair value of plan assets	$ —	$ —

The Corporation recognized expense under these non-qualified plans of $192,000, $161,000 and $213,000 for 2019, 2018 and 2017, respectively.

(table dollar amounts in thousands, except share data)

The following table shows the components of net periodic pension benefit cost:

	December 31, 2019	December 31, 2018	December 31, 2017
Service cost	$ 39	$ 8	$ 10
Interest cost	2,975	2,816	3,353
Expected return on plan assets	(4,414)	(4,891)	(4,778)
Amortization of prior service cost	87	87	90
Amortization of net loss	404	287	1,218
Settlement loss recognized	—	—	761
Net periodic pension benefit cost	$ (909)	$ (1,693)	$ 654

Other changes in plan assets and benefit obligations recognized in other comprehensive income:

	December 31, 2019	December 31, 2018	December 31, 2017
Net periodic pension benefit cost	$ (909)	$ (1,693)	$ 654
Net gain (loss)	4,552	(2,189)	1,504
Amortization of net loss	404	287	1,979
Amortization of prior service cost	87	87	90
Total recognized in other comprehensive income (loss)	5,043	(1,815)	3,573
Total recognized in net periodic pension benefit cost and other comprehensive income (loss)	$ 5,952	$ (122)	$ 2,919

The estimated amounts that will be amortized from accumulated other comprehensive income into net periodic pension benefit cost over the next fiscal year are:

	December 31, 2019	December 31, 2018	December 31, 2017
Amortization of net loss	$ (208)	$ (432)	$ (830)
Amortization of prior service cost	(87)	(87)	(87)
Total	$ (295)	$ (519)	$ (917)

Significant assumptions include:

	December 31, 2019	December 31, 2018	December 31, 2017
Weighted-average Assumptions Used to Determine Benefit Obligation:			
Discount rate	3.20%	4.30%	3.60%
Rate of compensation increase for accruing active participants	n/a	n/a	n/a
Weighted-average Assumptions Used to Determine Cost:			
Discount rate	4.30%	3.60%	4.20%
Expected return on plan assets	6.00%	6.00%	6.00%
Rate of compensation increase for accruing active participants	n/a	n/a	n/a

At December 31, 2019 and 2018, the Corporation based its estimate of the expected long-term rate of return on analysis of the historical returns of the plans and current market information available. The plans' investment strategies are to provide for preservation of capital with an emphasis on long-term growth without undue exposure to risk. The assets of the plans' are invested in accordance with the plans' Investment Policy Statement, subject to strict compliance with ERISA and any other applicable statutes.

The plans' risk management practices include semi-annual evaluations of investment managers, including reviews of compliance with investment manager guidelines and restrictions; ability to exceed performance objectives; adherence to the investment philosophy and style; and ability to exceed the performance of other investment managers. The evaluations are reviewed by management with appropriate follow-up and actions taken, as deemed necessary. The Investment Policy Statement generally allows investments in cash and cash equivalents, real estate, fixed income debt securities and equity securities, and specifically prohibits investments in derivatives, options, futures, private placements, short selling, non-marketable securities and purchases of individual non-investment grade bonds.

At December 31, 2019, the maturities of the plans' debt securities ranged from 15 days to 7.67 years, with a weighted average maturity of 4.00 years. At December 31, 2018, the maturities of the plans' debt securities ranged from 15 days to 8.24 years, with a weighted average maturity of 4.29 years.

(table dollar amounts in thousands, except share data)

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as of December 31, 2019. The minimum contribution required in 2020 will likely be zero, but the Corporation may decide to make a discretionary contribution during the year.

2020	$ 5,662
2021	5,549
2022	5,547
2023	5,418
2024	5,241
After 2024	24,435
	$ 51,852

Plan assets are re-balanced quarterly. At December 31, 2019 and 2018, plan assets by category are as follows:

	December 31, 2019		December 31, 2018	
	Actual	Target	Actual	Target
Cash and cash equivalents	3.0%	3.0%	3.9%	3.0%
Equity securities	52.3	50.0	48.4	50.0
Debt securities	42.3	45.0	45.6	45.0
Alternative investments	2.4	2.0	2.1	2.0
	100.0%	100.0%	100.0%	100.0%

The Savings Plan, a Section 401(k) qualified defined contribution plan, was amended on March 1, 2005 to provide enhanced retirement benefits, including employer and matching contributions, for eligible employees of the Corporation and its subsidiaries. The Corporation matches employees' contributions at the rate of 100 percent for the first 3 percent of base salary contributed by participants and 50 percent of the next 3 percent of base salary contributed by participants.

Beginning in 2005, employees who have completed 1000 hours of service and are an active employee on the last day of the year receive an additional retirement contribution after year-end. Employees hired after January 1, 2010 do not participate in the additional retirement contribution. Effective January 1, 2013, the additional retirement contribution was fixed at 2 percent. Full vesting occurs after five years of service. The Corporation's expense for the Savings Plan, including the additional retirement contribution, was $4,560,000, $5,114,000 and $3,691,000 for 2019, 2018 and 2017, respectively.

The Corporation also maintains a post retirement benefit plan that provides health insurance benefits for a closed group of participants that came to the Corporation through the 2019 MBT acquisition. To be eligible for the post retirement plan, the participants must (1) have been hired by MBT prior to January 1, 2007, (2) be a full-time employee of the Corporation and employed by MBT prior to the acquisition, and (3) be at least 55 of age with 5 years of full-time service with MBT. The plan allowed retirees to be carried under the Corporation's health insurance plan, generally from ages 55 to 65. The retirees' premiums are determined based on their retiree class (per historical MBT guidelines) and also determined by the plan type for which the retiree is enrolled. As of December 31, 2019, the obligation payable under the post retirement plan was $4.0 million. Post retirement plan expense totaled $43,000 for the year ended December 31, 2019.

(table dollar amounts in thousands, except share data)

Pension Plan Assets

Following is a description of the valuation methodologies used for pension plan assets measured at fair value on a recurring basis, as well as the general classification of pension plan assets pursuant to the valuation hierarchy.

Where quoted market prices are available in an active market, plan assets are classified within Level 1 of the valuation hierarchy. Level 1 plan assets total $80,689,000 and $71,277,000 as of December 31, 2019 and 2018, respectively, and include cash and cash equivalents, common stocks, mutual funds and corporate bonds and notes. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of plan assets with similar characteristics or discounted cash flows. Level 2 plan assets total $4,432,000 and $5,459,000 as of December 31, 2019 and 2018, respectively, and include governmental agencies, taxable municipal bonds and notes, and certificates of deposit. In certain cases where Level 1 or Level 2 inputs are not available, plan assets are classified within Level 3 of the hierarchy. There are no assets classified within Level 3 of the hierarchy at December 31, 2019 and 2018.

		Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
December 31, 2019	**Fair Value**	**(Level 1)**	**(Level 2)**	**(Level 3)**
Cash & Cash Equivalents	$ 2,578	$ 2,578	$ —	$ —
Corporate Bonds and Notes	17,629	17,629	—	—
Government Agency and Municipal Bonds and Notes	3,660	—	3,660	—
Certificates of Deposit	772	—	772	—
Party-in-Interest Investments				
Common Stock	2,516	2,516	—	—
Mutual Funds				
Taxable Bond	13,938	13,938	—	—
Large Cap Equity	21,958	21,958	—	—
Mid Cap Equity	10,407	10,407	—	—
Small Cap Equity	5,753	5,753	—	—
International Equity	3,898	3,898	—	—
Specialty Alternative Equity	2,012	2,012	—	—
	$ 85,121	$ 80,689	$ 4,432	$ —

		Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
December 31, 2018	**Fair Value**	**(Level 1)**	**(Level 2)**	**(Level 3)**
Cash & Cash Equivalents	$ 3,026	$ 3,026	$ —	$ —
Corporate Bonds and Notes	16,691	16,691	—	—
Government Agency and Municipal Bonds and Notes	4,479	—	4,479	—
Certificates of Deposit	980	—	980	—
Party-in-Interest Investments				
Common Stock	2,073	2,073	—	—
Mutual Funds				
Taxable Bond	12,817	12,817	—	—
Large Cap Equity	18,269	18,269	—	—
Mid Cap Equity	8,735	8,735	—	—
Small Cap Equity	4,713	4,713	—	—
International Equity	3,336	3,336	—	—
Specialty Alternative Equity	1,617	1,617	—	—
	$ 76,736	$ 71,277	$ 5,459	$ —

(table dollar amounts in thousands, except share data)

NOTE 22

INCOME TAX

The reconciliation between income tax expense expected at the U.S. federal statutory tax rate and the reported income tax expense is summarized in the following table for years ended December 31, 2019, 2018 and 2017:

	2019	2018	2017
Reconciliation of Federal Statutory to Actual Tax Expense:			
Federal Statutory Income Tax at 21% for 2019 and 2018 and 35% for 2017	$ 40,695	$ 39,509	$ 46,758
Tax-exempt Interest Income	(10,124)	(8,347)	(11,127)
Stock Compensation	(459)	(622)	(893)
Earnings on Life Insurance	(953)	(868)	(2,302)
Tax Credits	(263)	(615)	(811)
Tax Cuts and Jobs Act - Rate Reform Impact	—	—	5,120
Other	429	(58)	779
Income Tax Expense	$ 29,325	$ 28,999	$ 37,524
Effective Tax Rate	15.1%	15.4%	28.1%

Income tax expense consists of the following components for the years ended December 31, 2019, 2018, 2017:

	2019	2018	2017
Income Tax Expense for the Year Ended December 31:			
Currently Payable:			
Federal	$ 23,938	$ 23,633	$ 22,001
State	422	1,842	—
Deferred:			
Federal	4,726	6,723	9,969
Tax Cuts and Jobs Act - Rate Reform Impact	—	—	5,120
State	239	(3,199)	434
Income Tax Expense	$ 29,325	$ 28,999	$ 37,524

Significant components of the net deferred tax assets (liabilities) resulting from temporary differences were as follows at December 31, 2019 and 2018:

	2019	2018
Deferred Tax Asset at December 31:		
Assets:		
Differences in Accounting for Loan Losses	$ 19,717	$ 19,785
Differences in Accounting for Loan Fees	442	749
Differences in Accounting for Loans and Securities	—	710
Deferred Compensation	4,436	2,101
Federal & State Income Tax Loss Carryforward and Credits	6,205	6,954
Net Unrealized Loss on Securities Available for Sale	—	1,686
Other	3,499	2,028
Total Assets	34,299	34,013
Liabilities:		
Differences in Depreciation Methods	5,240	6,496
Differences in Accounting for Loans and Securities	1,192	—
Difference in Accounting for Pensions and Other Employee Benefits	1,556	566
State Income Tax	778	791
Net Unrealized Gain on Securities Available for Sale	10,333	—
Gain on FDIC Modified Whole Bank Transaction	413	487
Other	6,506	4,271
Total Liabilities	26,018	12,611
Net Deferred Tax Asset Before Valuation Allowance	8,281	21,402
Valuation allowance:		
Beginning Balance	—	(6,966)
Decrease/(Increase) During the Year	—	6,966
Ending Balance	—	—
Net Deferred Tax Asset	$ 8,281	$ 21,402

(table dollar amounts in thousands, except share data)

The $13,121,000 decrease in the Corporation's net deferred tax asset was primarily due to an increase in deferred tax liabilities. The largest deferred tax liability increase was associated with the tax effect of the change in unrealized gains and losses on available for sale securities of $12,019,000. Additionally, the net change in deferred taxes associated with accounting for loans increased the net deferred tax liability by $1,902,000. Offsetting the increases to deferred tax liabilities was a deferred tax asset increase associated with deferred compensation of $2,336,000.

As of December 31, 2019, the Corporation has approximately $28,354,000 of state NOL carryforwards available to offset future state taxable income, which will expire beginning in 2022. These NOL carryforwards along with normal timing differences between book and tax result in total state deferred tax assets of $3,719,000. Management believes it is more likely than not that the benefit of these state NOL carryforwards and other state deferred tax assets will be fully realized.

The Corporation has additional paid-in capital that is considered restricted resulting from the acquisitions of CFS and Ameriana of approximately $13,393,000 and $11,883,000, respectively. CFS and Ameriana qualified as banks under provisions of the Internal Revenue Code which permitted them to deduct from taxable income an allowance for bad debts which differed from the provision for losses charged to income. No provision for income taxes had been provided. If in the future this portion of additional paid-in capital is distributed, or the Corporation no longer qualifies as a bank for income tax purposes, income taxes may be imposed at the then applicable tax rates. The unrecorded deferred tax liability at December 31, 2019, would have been approximately $5,308,000.

The Corporation or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. The Corporation is generally no longer subject to U.S. federal, state and local income tax examinations by tax authorities for tax years before 2016.

NOTE 23

NET INCOME PER SHARE

Basic net income per share is computed by dividing net income by the weighted-average shares outstanding during the reporting period. Diluted net income per share is computed by dividing net income by the combination of the weighted-average 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 share in the periods where the effect would be antidilutive.

The following table reconciles basic and diluted net income per share for the years indicated:

	2019			2018			2017		
		Weighted-Average Shares			Weighted-Average Shares			Weighted-Average Shares	
Basic net income per share:									
Net income available to common stockholders	$ 164,460	51,412,133	$ 3.20	$ 159,139	49,262,015	$ 3.23	$ 96,070	45,181,221	$ 2.13
Effect of dilutive stock options and restricted stock awards		149,105			208,908			221,757	
Diluted net income per share:									
Net income available to common stockholders	$ 164,460	51,561,238	$ 3.19	$ 159,139	49,470,923	$ 3.22	$ 96,070	45,402,978	$ 2.12

As of December 31, 2019, 2018 and 2017, there were no stock options with an option price greater than the average market price of the common shares.

(table dollar amounts in thousands, except share data)

NOTE 24

QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following table sets forth certain quarterly results for the years ended December 31, 2019 and 2018:

	2019				2018			
	First	Second	Third	Fourth	First	Second	Third	Fourth
Interest income	$ 108,813	$ 112,639	$ 118,132	$ 125,821	$ 93,620	$ 100,871	$ 104,800	$ 108,653
Interest expense	23,947	27,361	29,200	28,237	13,704	16,300	18,314	20,769
Net interest income	84,866	85,278	88,932	97,584	79,916	84,571	86,486	87,884
Provision for loan losses	1,200	500	600	500	2,500	1,663	1,400	1,664
Net interest income after provision for loan losses	83,666	84,778	88,332	97,084	77,416	82,908	85,086	86,220
Non-interest income	18,713	21,614	22,116	24,245	19,561	18,191	19,527	19,180
Non-interest expense	56,621	57,587	67,354	65,201	53,687	53,504	55,022	57,738
Income before income tax expense	45,758	48,805	43,094	56,128	43,290	47,595	49,591	47,662
Income tax expense	6,941	7,749	6,337	8,298	6,611	7,961	8,478	5,949
Net income available to common stockholders	$ 38,817	$ 41,056	$ 36,757	$ 47,830	$ 36,679	$ 39,634	$ 41,113	$ 41,713
Basic EPS	$ 0.79	$ 0.83	$ 0.71	$ 0.87	$ 0.75	$ 0.80	$ 0.83	$ 0.85
Diluted EPS	$ 0.78	$ 0.83	$ 0.71	$ 0.87	$ 0.74	$ 0.80	$ 0.83	$ 0.85
Average Shares Outstanding:								
Basic	49,369,024	49,432,167	51,433,227	55,348,176	49,192,647	49,252,580	49,286,945	49,314,276
Diluted	49,540,844	49,549,887	51,569,557	55,519,953	49,427,972	49,451,406	49,492,019	49,511,233

NOTE 25

CONDENSED FINANCIAL INFORMATION (parent company only)

Presented below is condensed financial information as to financial position, results of operations, and cash flows of the Corporation.

Condensed Balance Sheets

	December 31, 2019	December 31, 2018
Assets		
Cash	$ 127,723	$ 87,435
Investment in subsidiaries	1,791,070	1,459,036
Premises and equipment	153	1,158
Interest receivable	6	6
Goodwill	448	448
Cash surrender value of life insurance	837	810
Other assets	16,803	5,240
Total assets	$ 1,937,040	$ 1,554,133
Liabilities		
Subordinated debentures and term loans	$ 138,685	$ 138,463
Interest payable	977	994
Other liabilities	10,941	6,416
Total liabilities	150,603	145,873
Stockholders' equity	1,786,437	1,408,260
Total liabilities and stockholders' equity	$ 1,937,040	$ 1,554,133

(table dollar amounts in thousands, except share data)

Condensed Statements of Income and Comprehensive Income

	December 31, 2019	December 31, 2018	December 31, 2017
Income			
Dividends from subsidiaries	$ 125,775	$ 100,954	$ 33,014
Loss on sale of available for sale securities	—	—	(50)
Other income	172	572	350
Total income	125,947	101,526	33,314
Expenses			
Interest expense	8,309	8,233	7,572
Salaries and employee benefits	3,540	3,729	4,118
Net occupancy and equipment expenses	802	851	797
Other outside services	1,889	489	1,810
Professional services	303	270	442
Other expenses	1,587	442	(385)
Total expenses	16,430	14,014	14,354
Income before income tax benefit and equity in undistributed income of subsidiaries	109,517	87,512	18,960
Income tax benefit	3,575	3,298	5,946
Income before equity in undistributed income of subsidiaries	113,092	90,810	24,906
Equity in undistributed income of subsidiaries	51,368	68,329	71,164
Net income available to common stockholders	$ 164,460	$ 159,139	$ 96,070
Net income	$ 164,460	$ 159,139	$ 96,070
Other comprehensive income (loss)	49,296	(17,888)	10,673
Comprehensive income	$ 213,756	$ 141,251	$ 106,743

Condensed Statements of Cash Flows

	December 31, 2019	December 31, 2018	December 31, 2017
Cash Flow From Operating Activities:			
Net income	$ 164,460	$ 159,139	$ 96,070
Adjustments to Reconcile Net Income to Net Cash:			
Share-based compensation	1,339	1,256	1,215
Distributions in excess of (equity in undistributed) income of subsidiaries	(51,368)	(68,329)	(71,164)
Loss on sale of available for sale securities	—	—	50
Net Change in:			
Other assets	(8,944)	584	3,358
Other liabilities	4,611	274	(1,900)
Investment in subsidiaries - operating activities	(268)	841	1,112
Net cash provided by operating activities	109,830	93,765	28,741
Cash Flow From Investing Activities:			
Net cash received in acquisition	78	—	37
Other	—	2,189	—
Net cash provided by investing activities	78	2,189	37
Cash Flow From Financing Activities:			
Cash dividends	(51,276)	(41,660)	(31,820)
Stock issued under employee benefit plans	702	707	519
Stock issued under dividend reinvestment and stock purchase plan	1,531	1,211	991
Stock options exercised	144	1,598	2,398
Restricted shares withheld for taxes	(1,680)	(1,902)	(1,283)
Repurchases of common stock	(19,041)	—	—
Net cash used by financing activities	(69,620)	(40,046)	(29,195)
Net change in cash	40,288	55,908	(417)
Cash, beginning of the year	87,435	31,527	31,944
Cash, end of year	$ 127,723	$ 87,435	$ 31,527

NOTE 26

GENERAL LITIGATION

The Corporation is subject to claims and lawsuits that arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the consolidated financial position, results of operations and cash flow of the Corporation.

PART II: ITEM 9., ITEM 9A. AND ITEM 9B.

ITEM 9.   CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

In connection with its audits for the two most recent fiscal years ended December 31, 2019, there have been no disagreements with the Corporation's independent registered public accounting firm on any matter of accounting principles or practices, financial statement disclosure or audit scope or procedure, nor have there been any changes in accountants.

ITEM 9A. CONTROLS AND PROCEDURES

At the end of the period covered by this report (the "Evaluation Date"), the Corporation carried out an evaluation, under the supervision and with the participation of the Corporation's management, including the Corporation's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of its disclosure controls and procedures pursuant to Rule 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 ("Exchange Act"). In 2019, the Corporation completed the acquisition of MBT Financial Corp., and as a result, the Corporation extended oversight and monitoring processes that support the Corporation's internal controls over financial reporting during the third and fourth quarters of 2019, to include the operations of MBT Financial Corp. Based upon that evaluation, the Corporation's Chief Executive Officer and Chief Financial Officer concluded that, as of the Evaluation Date, the Corporation's 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 the Corporation's reports filed or submitted under the Exchange Act are recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of First Merchants Corporation (the "Corporation") is responsible for establishing and maintaining effective internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. The Corporation's internal control over financial reporting is designed to provide reasonable assurance to the Corporation's management and Board of Directors regarding the preparation and fair presentation of published financial statements. As part of its function of assisting the Corporation's Board of Directors in discharging its responsibility of ensuring financial reporting and regulatory risks to the organization are properly being managed, mitigated and monitored by Management, the Audit Committee of the Board of Directors oversees management's internal controls over financial reporting.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Accordingly, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management assessed the effectiveness of the Corporation's internal control over financial reporting as of December 31, 2019. In making this assessment, management used the criteria set forth in "Internal Control - Integrated Framework (2013)" issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. As permitted by SEC guidance, management excluded from its assessment the operations of the MBT Financial Corp. acquisition made during 2019, which is described in NOTE 2. ACQUISITION of the Notes to Consolidated Financial Statements included as Item 8 of this Annual Report on Form 10-K. The total assets of MBT Financial Corp. represented approximately 11 percent of the Corporation's consolidated assets as of December 31, 2019. Based on this assessment, management has determined that the Corporation's internal control over financial reporting as of December 31, 2019 is effective based on the specified criteria.

There have been no changes in the Corporation's internal controls over financial reporting identified in connection with the evaluation referenced 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.

BKD, LLP, the independent registered public accounting firm that audited the financial statements included in Item 8 of this Annual Report on Form 10-K, has issued an attestation report on the Corporation's internal control over financial reporting as of December 31, 2019, which appears as follows.

PART II: ITEM 9., ITEM 9A. AND ITEM 9B.

Report of Independent Registered Public Accounting Firm

To the Stockholders, Board of Directors and Audit Committee
First Merchants Corporation
Muncie, Indiana

Opinion on the Internal Control Over Financial Reporting

We have audited First Merchants Corporation's (Corporation) internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework: (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission* (COSO).

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework: (2013)* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets of the Corporation as of December 31, 2019 and 2018 and the related consolidated statements of income, comprehensive income, stockholders' equity and the cash flows of the Corporation and our report dated February 28, 2020, expressed an unqualified opinion.

Basis for Opinion

The Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Corporation's internal control over financial reporting based on our audit.

We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Corporation in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definitions and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

BKD, LLP

Indianapolis, Indiana
February 28, 2020

PART II: ITEM 9., ITEM 9A. AND ITEM 9B.

ITEM 9B. OTHER INFORMATION

None

PART III: ITEM 10., ITEM 11., ITEM 12., ITEM 13. AND ITEM 14.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required under this Item 10 relating to executive officers is set forth in Part I, “Supplemental Information - Information about our Executive Officers” of this Annual Report on Form 10-K.

The Corporation has adopted a Code of Ethics that applies to its Chief Executive Officer, Chief Financial Officer, Chief Banking Officer, Senior Vice President of Finance, Corporate Controller and Corporate Treasurer. It is part of the Corporation’s Code of Business Conduct, which applies to all employees and directors of the Corporation and its affiliates. A copy of the Code of Business Conduct may be obtained, free of charge, by writing to First Merchants Corporation at 200 East Jackson Street, Muncie, IN 47305. In addition, the Code of Ethics is maintained on the Corporation’s website, which can be accessed at https://www.firstmerchants.com.

The Corporation will provide information that is responsive to the remainder of this Item 10 in its definitive proxy statement furnished to stockholders in connection with the 2020 annual meeting (“2020 Proxy Statement”) or in an amendment to this Annual Report not later than 120 days after the end of the fiscal year covered hereby. That information is incorporated in this Item 10 by reference.

ITEM 11. EXECUTIVE COMPENSATION

The Corporation will provide information that is responsive to this Item 11 in its 2020 Proxy Statement or in an amendment to this Annual Report on Form 10-K not later than 120 days after the end of the fiscal year covered hereby. That information is incorporated in this Item 11 by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required under this Item 12 relating to equity compensation plans is set forth in Part II, Item 5 under the table entitled “Equity Compensation Plan Information” of this Annual Report on Form 10-K. The Corporation will provide additional information that is responsive to this Item 12 in its 2020 Proxy Statement or in an amendment to this Annual Report not later than 120 days after the end of the fiscal year covered hereby. That information is incorporated in this Item 12 by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The Corporation will provide information that is responsive to this Item 13 in its 2020 Proxy Statement or in an amendment to this Annual Report on Form 10-K not later than 120 days after the end of the fiscal year covered hereby. That information is incorporated in this Item 13 by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The Corporation will provide information that is responsive to this Item 14 in its 2020 Proxy Statement or in an amendment to this Annual Report on Form 10-K not later than 120 days after the end of the fiscal year covered hereby. That information is incorporated in this Item 14 by reference.

PART IV: ITEM 15. AND ITEM 16.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

FINANCIAL INFORMATION

(a) 1. The following financial statements are filed as part of this document under Item 8 hereof:
Independent accountants' report
Consolidated balance sheets at December 31, 2019 and 2018
Consolidated statements of income, years ended December 31, 2019, 2018 and 2017
Consolidated statements of comprehensive income, years ended December 31, 2019, 2018 and 2017
Consolidated statements of stockholders' equity, years ended December 31, 2019, 2018 and 2017
Consolidated statements of cash flows, years ended December 31, 2019, 2018 and 2017
Notes to consolidated financial statements

(a) 2. Financial statement schedules:
All schedules are omitted because they are not applicable or not required, or because the required information is included in the consolidated financial statements or related notes.

(a) 3. Exhibits:

Exhibit No:	Description of Exhibits:
3.1	First Merchants Corporation Articles of Incorporation, as amended (Incorporated by reference to registrant's Form 8-K filed on May 2, 2017) (SEC No. 000-17071)
3.2	Bylaws of First Merchants Corporation dated August 11, 2016 (Incorporated by reference to registrant's Form 10-K filed on March 1, 2017) (SEC No. 000-17071)
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 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 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 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 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 Form S-3 filed on February 6, 2019) (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	Description of Assumed Junior Subordinated Debt Securities of Independent Alliance Banks, Inc. and Agreement to Furnish Copies of Related Instruments and Documents (Incorporated by reference to registrant's Form 10-Q filed on November 9, 2017) (SEC No. 000-17071)
4.8	Description of the Registrant's Securities Registered under Section 12 of the Securities Exchange Act of 1934 (2)
10.1	First Merchants Corporation Senior Management Incentive Compensation Program, dated February 5, 2020 (Incorporated by reference to the description in Item 5.02 of registrant's Form 8-K filed on February 11, 2020) (SEC No. 000-170771) (1)
10.2	Resolution of the Board of Directors of First Merchants Corporation on director compensation dated October 1, 2017 (Incorporated by reference to the registrant's Form 10-K filed on March 1, 2018) (SEC No. 000-17071) (1)
10.3	First Merchants Corporation Non-Employee Directors' Deferred Compensation Plan, effective as of January 1, 2018 (Incorporated by reference to the registrant's Form 8-K filed on December 15, 2017) (SEC No. 000-17071) (1)
10.4	First Merchants Corporation 2009 Long-Term Equity Incentive Plan, effective as amended January 1, 2015 (Incorporated by reference to registrant's Form 10-K filed on February 27, 2015) (SEC No. 000-17071) (1)
10.5	First Merchants Corporation Change of Control Agreement, as amended, with Michael C. Rechin dated June 1, 2011 (Incorporated by reference to registrant's Form 10-Q filed on August 9, 2011) (SEC No. 000-17071) (1)
10.6	First Merchants Corporation Change of Control Agreement, as amended, with Mark K. Hardwick dated June 1, 2011 (Incorporated by reference to registrant's Form 10-Q filed on August 9, 2011) (SEC No. 000-17071) (1)
10.7	First Merchants Corporation Change of Control Agreement, as amended, with Michael J. Stewart dated June 1, 2011 (Incorporated by reference to registrant's Form 10-Q filed on August 9, 2011) (SEC No. 000-17071) (1)
10.8	First Merchants Corporation Change of Control Agreement, as amended, with John J. Martin dated June 1, 2011 (Incorporated by reference to registrant's Form 10-Q filed on August 9, 2011) (SEC No. 000-17071) (1)
10.9	First Merchants Corporation Change of Control Agreement, as amended, with Jeffery B. Lorentson dated June 1, 2011 (Incorporated by reference to registrant's Form 10-Q filed on August 9, 2011) (SEC No. 000-17071) (1)
10.10	First Merchants Corporation Change of Control Agreement, effective February 11, 2014, with Stephan H. Fluhler (Incorporated by reference to registrant's Form 8-K filed on May 12, 2014) (SEC No. 000-17071) (1)
10.11	First Merchants Corporation Supplemental Executive Retirement Plan and amendments thereto (Incorporated by reference to registrant's Form 10-K for year ended December 31, 1997) (SEC No. 000-17071) (1)
10.12	First Merchants Corporation Defined Contribution Supplemental Retirement Plan dated January 1, 2006 (Incorporated by reference to registrant's Form 8-K filed on February 6, 2007) (SEC No. 000-17071) (1)
10.13	First Merchants Corporation Participation Agreement of Michael C. Rechin dated January 26, 2007 (Incorporated by reference to registrant's Form 8-K filed on February 6, 2007) (SEC No. 000-17071) (1)

PART IV: ITEM 15. AND ITEM 16.

10.14	2011 Executive Deferred Compensation Plan, effective January 1, 2011 (Incorporated by reference to registrant's Form 8-K filed on November 3, 2011) (SEC No. 000-17071) (1)
10.15	First Merchants Corporation 2019 Long-Term Equity Incentive Plan (Incorporated by reference to Exhibit 10.1 of registrant's Form 8-K filed May 15, 2019) (SEC No. 000-17071) (1)
10.16	First Merchants Corporation 2019 Employee Stock Purchase Plan (Incorporated by reference to Exhibit 10.2 of registrant's Form 8-K filed May 15, 2019) (SEC No. 000-17071) (1)
10.17	First Merchants Corporation Equity Compensation Plan for Non-Employee Directors (Incorporated by reference to Exhibit 4.5 of registrant's Form S-8 filed June 26, 2019) (SEC No. 333-232362) (1)
21	Subsidiaries of registrant (2)
23	Consent of Independent Registered Public Accounting Firm (2)
24	Limited Power of Attorney (2)
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes - Oxley Act of 2002 (2)
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes - Oxley Act of 2002 (2)
32	Certifications Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (3)
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 (2)
101.SCH	Inline XBRL Taxonomy Extension Schema Document (2)
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document (2)
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document (2)
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document (2)
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document (2)
104	Cover Page Interactive Data File (formatted as Inline XBRL and included in Exhibit 101)
	(1) Management contract or compensatory plan
	(2) Filed herewith.
	(3) Furnished herewith.

ITEM 16. FORM 10-K SUMMARY

Not applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) 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, on this 28th day of February, 2020.

FIRST MERCHANTS CORPORATION

By: /s/ Michael C. Rechin
Michael C. Rechin,
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report on Form 10-K has been signed by the following persons on behalf of the registrant and in the capacities indicated, on this 28th day of February, 2020.

/s/ Michael C. Rechin
Michael C. Rechin, President and
Chief Executive Officer
(Principal Executive Officer)

/s/ Mark K. Hardwick
Mark K. Hardwick, Executive Vice President,
Chief Financial Officer and Chief Operating Officer
(Principal Financial and Accounting Officer)

/s/ Michael R. Becher*
Michael R. Becher, Director

/s/ Michael C. Rechin
Michael C. Rechin, Director

/s/ Harold D. Chaffin*
Harold D. Chaffin, Director

/s/ Michael C. Marhenke*
Michael C. Marhenke, Director

/s/ Michael J. Fisher*
Michael J. Fisher, Director

/s/ Charles E. Schalliol*
Charles E. Schalliol, Director

/s/ F. Howard Halderman*
F. Howard Halderman, Director

/s/ Patrick A. Sherman*
Patrick A. Sherman, Director

/s/ William L. Hoy*
William L. Hoy, Director

/s/ Terry L. Walker*
Terry L. Walker, Director

/s/ Clark C. Kellogg*
Clark C. Kellogg, Director

/s/ Jean L. Wojtowicz*
Jean L. Wojtowicz, Director

/s/ Gary J. Lehman*
Gary J. Lehman, Director

* By Mark K. Hardwick as Attorney-in Fact pursuant to a Limited Power of Attorney executed by the directors listed above, which Power of Attorney is being filed with the Securities and Exchange Commission as an exhibit hereto.

/s/ Mark K. Hardwick
Mark K. Hardwick
As Attorney-in-Fact
February 28, 2020

EXHIBIT-4.8
Description of the Registrant's Securities Registered under Section 12 of the Securities Exchange Act of 1934

Common Stock

The following summary of the common stock of First Merchants Corporation (the "Corporation") is based on and qualified by the Corporation's Articles of Incorporation and Bylaws. For a complete description of the terms and provisions of the Corporation's capital stock, including its common stock, refer to the Corporation's Articles of Incorporation and Bylaws, both of which are filed as exhibits to this Annual Report on Form 10-K.

Authorized Capital Shares

The total number of shares of common stock that the Corporation is authorized to issue is 100,000,000, all with no par value. The total number of shares of preferred stock that the Corporation is authorized to issue is 500,000, all with no par value. The outstanding shares of the Corporation's common stock are fully paid and non-assessable. There are no shares of preferred stock currently outstanding.

Voting Rights

Each share of the Corporation's common stock is entitled to one vote. Directors are elected by a plurality of the votes cast by the shares entitled to vote in an election at a shareholder's meeting at which a quorum is present. Shareholders do not have a right to cumulate their votes for directors. The affirmative vote of a majority of the shares present and voting at a meeting of shareholders, in person or by proxy, is required for approval of all items submitted to the shareholders for consideration other than (i) the election of directors, as described above, which is based on a plurality of votes cast, (ii) certain amendments to the Corporation's Articles of Incorporation, as described below under "Articles of Incorporation and Bylaw Amendments," which require a greater percentage, and (iii) certain transactions involving one or more shareholders owning, directly or indirectly, not less than ten percent (10%) of the Corporation's voting shares (see "Anti-Takeover Provisions" below) or a liquidation or dissolution of the Corporation or any of its material subsidiaries, which, in such cases, requires the affirmative vote of the holders of not less than three-fourths (3/4) of the voting shares of the Corporation.

Dividend Rights

The holders of the Corporation's common stock are entitled to dividends and other distributions when, as and if declared by the Board of Directors of the Corporation (the "Board").

Generally, the Corporation may not pay a dividend if, after giving effect to the dividend:

- the Corporation would not be able to pay its debts as they become due in the usual course of business; or
- the Corporation's total assets would be less than the sum of its total liabilities plus the amount that would be needed to satisfy preferential rights of shareholders payable upon dissolution.

The Corporation's principal source of funds for dividend payments to shareholders is dividends received from First Merchants Bank, the Corporation's wholly-owned bank subsidiary. Banking regulations limit the maximum amount of dividends that a bank may pay without requesting prior approval of regulatory agencies. Under these regulations, the amount of dividends that may be paid in any calendar year is limited to a bank's retained net income (as defined in the regulations) for the current year plus those for the previous two years, subject to the capital requirements described above.

First Merchants Bank will ordinarily be restricted to paying dividends in a lesser amount to the Corporation than is legally permissible because of the need for banks to maintain adequate capital consistent with the capital adequacy guidelines promulgated by the banks' principal federal regulatory authorities. If a bank's capital levels are deemed inadequate by the regulatory authorities, payment of dividends to its parent holding company may be prohibited. First Merchants Bank is not currently subject to such a restriction.

Redemption

Under Indiana law, the Corporation may only redeem or acquire shares of its common stock with funds legally available therefor, and shares so acquired constitute authorized but unissued shares. The Corporation may not redeem or acquire its shares of common stock if, after such redemption, it would not be able to pay its debts as they become due. Additionally, the Corporation may not redeem its shares if its total assets would be less than the sum of its total liabilities plus preferential rights of shareholders payable upon dissolution.

Liquidation Rights

In the event of any liquidation or dissolution of the Corporation, its shareholders are entitled to receive pro rata, according to the number of shares held, any assets distributable to shareholders, subject to the payment of Corporation's liabilities and any rights of creditors and holders of shares of Corporation's preferred stock then outstanding.

Preemptive Rights

The Corporation's Articles of Incorporation do not provide for preemptive rights for shareholders to subscribe for any new or additional shares of common stock.

Articles of Incorporation and Bylaw Amendments

Indiana law generally requires shareholder approval for most amendments to a corporation's articles of incorporation by a majority of a quorum at a shareholder's meeting (and, in certain cases, a majority of all shares held by any voting group entitled to vote). However, Indiana law permits a corporation in its articles of incorporation to specify a higher shareholder vote requirement for certain amendments. The Corporation's Articles of Incorporation require (i) the affirmative vote of three-fourths (3/4) of the outstanding shares of stock of the Corporation entitled to vote for an amendment to certain significant provisions of the Articles of Incorporation (see "Removal of Directors" and "Classification of the Board" below), and (ii) a majority of the Corporation's outstanding shares for all other amendments.

Unless otherwise provided in the Bylaws or in the Articles of Incorporation, the Board, by a majority vote of the actual number of directors elected and qualified, may from time to time make, alter, amend or repeal the Bylaws.

Removal of Directors

The Corporation's Articles of Incorporation and Bylaws provide that any director or all directors may be removed, with or without cause, at a meeting of shareholders upon the vote of the holders of not less than two-thirds (2/3) of the outstanding shares of capital stock entitled to vote on the election of directors. However, if two-thirds (2/3) of the entire Board recommends removal of a director to the shareholders, then such director may be removed by the affirmative vote of the holders of at least a majority of the outstanding shares of capital stock entitled to vote on the election of directors at a shareholders meeting. Amendment of these provisions of the Corporation's Articles of Incorporation requires the affirmative vote of three-fourths (3/4) of the outstanding shares of stock of the Corporation entitled to vote on such amendment. A two-thirds (2/3) vote of the entire Board is required to amend such provisions of the Corporation's Bylaws.

Classification of the Board

The Corporation's Articles of Incorporation and Bylaws provide that the directors of the Board shall be divided into three classes, with the number of directors in each class being as nearly equal as possible and the term for one class expiring at each annual meeting of shareholders (i.e., directors generally serve three-year staggered terms). The directors in each class are eligible for re-election to a new term by the shareholders at the annual meeting held in the year in which the term for their class expires. Amendment of these provisions of the Corporation's Articles of Incorporation requires the affirmative vote of three-fourths (3/4) of the outstanding shares of stock of the Corporation entitled to vote on such amendment. A two-thirds (2/3) vote of the entire Board is required to amend such provisions of the Corporation's Bylaws.

Vacancies occurring between annual meetings caused by a director's resignation, death or other incapacity, or by an increase in the number of directors, may be filled by a majority vote of the remaining members of the Board until the Corporation's next annual meeting of shareholders.

As stated above, the Corporation's shareholders do not have cumulative voting rights in the election of directors.

Anti-Takeover Provisions

The anti-takeover measures described below may have the effect of discouraging a person or other entity from acquiring control of the Corporation. These measures may have the effect of discouraging certain tender offers for shares of the Corporation's common stock which might otherwise be made at premium prices or certain other acquisition transactions which might be viewed favorably by a significant number of shareholders.

Under Indiana law, any ten percent (10%) shareholder of an Indiana corporation, with a class of voting shares registered under Section 12 of the Securities Exchange Act of 1934, as amended, such as the Corporation, is prohibited for a period of five (5) years from completing a business combination with the corporation unless, prior to the acquisition of such ten percent (10%) interest, the Board approved either the acquisition of such interest or the proposed business combination. If such prior approval is not obtained, the corporation and a ten percent (10%) shareholder may not consummate a business combination unless all provisions of the articles of incorporation are complied with and either a majority of disinterested shareholders approve the transaction or all shareholders receive a price per share as determined by Indiana law. A corporation may specifically adopt application of the business combination provision in its articles of incorporation and obtain the protection provided by this provision.

An Indiana corporation may elect to remove itself from the protection provided by the Indiana business combination provision, but such an election remains ineffective for eighteen (18) months and does not apply to a combination with a shareholder who acquired a ten percent (10%) ownership position prior to the election. The Corporation has adopted the protection provided by the business combination provision of Indiana law.

In addition to the business combination provision, Indiana law contains a "control share acquisition" provision which, although different in structure from the business combination provision, may have a similar effect of discouraging or making more difficult a hostile takeover of an Indiana corporation. This provision also may have the effect of discouraging premium bids for outstanding shares.

Under this provision, unless otherwise provided in the corporation's articles of incorporation or bylaws, if a shareholder acquires a certain amount of shares, approval of a majority of the disinterested shareholders must be obtained before the acquiring shareholder may vote the control shares. Under certain circumstances, the shares held by the acquirer may be redeemed by the corporation at the fair market value of the shares as determined by the control share acquisition provision. The Corporation is subject to the control share acquisition provision. The constitutional validity of the control share acquisition statute has been challenged in the past and has been upheld by the United States Supreme Court.

The control share acquisition provision does not apply to a plan of affiliation and merger if the corporation complies with the applicable merger provisions and is a party to the agreement of merger or plan of share exchange.

Listing

The Corporation's common stock is listed for exchange on the Nasdaq Global Select Market under the symbol of "FRME." As such, the holders of the Corporation's common stock are generally not restricted on sales of their shares.

EXHIBIT-21
SUBSIDIARIES OF THE REGISTRANT

EXHIBIT 21-SUBSIDIARIES OF THE REGISTRANT

Name	**Jurisdiction of Incorporation**
First Merchants Bank	U.S.
FMB Portfolio Management, Inc.	Delaware
FMB Properties, Inc	Maryland
FMB Risk Management, Inc.	Nevada
First Merchants Capital Trust II	Delaware
Ameriana Capital Trust	Delaware
Grabill Capital Trust	Delaware
FMB Tax Credit Holdings I, LLC	Indiana

EXHIBIT-23
CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

EXHIBIT 23 - CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements on Form S-8 (File Nos. 333-50484, 333-159643 and 333-219924), Form S-3 (File No. 333-229527) and Form S-4 (File No. 333-228658) of First Merchants Corporation (Corporation) of our reports dated February 28, 2020, on our audits of the consolidated financial statements of the Corporation as of December 31, 2019 and 2018, and for each of the three years in the period ended December 31, 2019, which report is included in this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report dated February 28, 2020, on our audit of the internal control over financial reporting of the Corporation as of December 31, 2019, which report is included in this Annual Report on Form 10-K.

BKD, LLP

Indianapolis, Indiana
February 28, 2020

EXHIBIT-24
LIMITED POWER OF ATTORNEY

EXHIBIT 24-LIMITED POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS that the undersigned directors and officers of First Merchants Corporation, an Indiana corporation, hereby constitute and appoint Mark K. Hardwick, the true and lawful agent and attorney-in-fact of the undersigned with full power and authority in said agent and attorney-in-fact to sign for the undersigned and in their respective names as directors and officers of the Corporation the Form 10-K of the Corporation to be filed with the Securities and Exchange Commission, Washington, D.C., under the Securities Exchange Act of 1934, as amended, and to sign any amendment to such Form 10-K, hereby ratifying and confirming all acts taken by such agent and attorney-in-fact, as herein authorized.

Dated: February 28, 2020

/s/ Michael C. Rechin
Michael C. Rechin, President and
Chief Executive Officer
(Principal Executive Officer)

/s/ Mark K. Hardwick
Mark K. Hardwick, Executive Vice President,
Chief Financial Officer and Chief Operating Officer
(Principal Financial and Accounting Officer)

/s/ Michael R. Becher*
Michael R. Becher, Director

/s/ Michael C. Marhenke*
Michael C. Marhenke, Director

/s/ Michael J. Fisher*
Michael J. Fisher, Director

/s/ Charles E. Schalliol*
Charles E. Schalliol, Director

/s/ F. Howard Halderman*
F. Howard Halderman, Director

/s/ Patrick A. Sherman*
Patrick A. Sherman, Director

/s/ William L. Hoy*
William L. Hoy, Director

/s/ Terry L. Walker*
Terry L. Walker, Director

/s/ Clark C. Kellogg*
Clark C. Kellogg, Director

/s/ Jean L. Wojtowicz*
Jean L. Wojtowicz, Director

/s/ Gary J. Lehman*
Gary J. Lehman, Director

EXHIBIT-31.1

FIRST MERCHANTS CORPORATION

FORM 10-K
CERTIFICATION PURSUANT TO
SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002

CERTIFICATION

I, Michael C. Rechin, President and Chief Executive Officer of First Merchants Corporation, certify that:

1. I have reviewed this Annual Report on Form 10-K 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 or 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.

Date: February 28, 2020

By: /s/ Michael C. Rechin
Michael C. Rechin
President and Chief Executive Officer
(Principal Executive Officer)

EXHIBIT-31.2

FIRST MERCHANTS CORPORATION

FORM 10-K
CERTIFICATION PURSUANT TO
SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002

CERTIFICATION

I, Mark K. Hardwick, Executive Vice President, Chief Financial Officer and Chief Operating Officer of First Merchants Corporation, certify that:

1. I have reviewed this Annual Report on Form 10-K 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 or 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.

Date: February 28, 2020

By: /s/ Mark K. Hardwick
Mark K. Hardwick
Executive Vice President,
Chief Financial Officer and Chief Operating Officer
(Principal Financial and Accounting Officer)

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 annual report of First Merchants Corporation (the “Corporation”) on Form 10-K for the period ending December 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Michael C. Rechin, President and 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.

Date: February 28, 2020 By: /s/ Michael C. Rechin

Michael C. Rechin
President and 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 annual report of First Merchants Corporation (the “Corporation”) on Form 10-K for the period ending December 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Mark K. Hardwick, Executive Vice President, Chief Financial Officer and Chief Operating 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.

Date: February 28, 2020 By: /s/ Mark K. Hardwick

Mark K. Hardwick
Executive Vice President,
Chief Financial Officer and Chief Operating 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.