

1Q 2020 | Earnings Highlights | April 23, 2020



First Merchants Corporation

NASDAQ: FRME



Forward Looking Statement

This presentation contains forward-looking statements made pursuant to the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements can often, but not always, 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, but are not limited to, statements relating to First Merchants’ goals, intentions and expectations; statements regarding the First Merchants’ business plan and growth strategies; statements regarding the asset quality of First Merchants’ loan and investment portfolios; and estimates of First Merchants’ risks and future costs and benefits. These forward-looking statements are subject to significant risks, assumptions and uncertainties that may cause results to differ materially from those set forth in forward-looking statements, including, among other things: possible changes in economic and business conditions; the existence or exacerbation of general geopolitical instability and uncertainty; the effects of a pandemic or other unforeseeable event; the ability of First Merchants to integrate recent acquisitions and attract new customers; possible changes in monetary and fiscal policies, and laws and regulations; the effects of easing restrictions on participants in the financial services industry; the cost and other effects of legal and administrative cases; possible changes in the credit worthiness of customers and the possible impairment of collectability of loans; fluctuations in market rates of interest; competitive factors in the banking industry; changes in the banking legislation or regulatory requirements of federal and state agencies applicable to bank holding companies and banks like First Merchants’ affiliate bank; continued availability of earnings and excess capital sufficient for the lawful and prudent declaration of dividends; changes in market, economic, operational, liquidity, credit and interest rate risks associated with the First Merchants’ business; and other risks and factors identified in each of First Merchants’ filings with the Securities and Exchange Commission. First Merchants undertakes no obligation to update any forward-looking statement, whether written or oral, relating to the matters discussed in this presentation or press release. In addition, the company’s past results of operations do not necessarily indicate its anticipated future results.

NON-GAAP FINANCIAL MEASURES

These slides contain non-GAAP financial measures. For purposes of Regulation G, a non-GAAP financial measure is a numerical measure of the registrant’s historical or future financial performance, financial position or cash flows that excludes amounts, or is subject to adjustments that have the effect of excluding amounts, that are included in the most directly comparable measure calculated and presented in accordance with GAAP in the statement of income, balance sheet or statement of cash flows (or equivalent statements) of the issuer; or includes amounts, or is subject to adjustments that have the effect of including amounts, that are excluded from the most directly comparable measure so calculated and presented. In this regard, GAAP refers to generally accepted accounting principles in the United States. Pursuant to the requirements of Regulation G, First Merchants Corporation has provided reconciliations within the slides, as necessary, of the non-GAAP financial measure to the most directly comparable GAAP financial measure.

Michael C. Rechin

President

Chief Executive Officer

1st Quarter 2020 Highlights

- › Earnings Per Share of \$.62; Net Income of \$34.3 Million; ROA 1.09%
- › Total Assets of \$12.7 Billion; Grew by 24.3% over 1Q 2019
- › Organic Loan & Deposit Growth of 7.9% and 8.9%, respectively, over 1Q 2019
- › \$19.8 Million Provision; Allowance increased by 22.9% over 1Q 2019
- › Tangible Common Equity to Assets of 9.91%; Allowance & Fair Value Marks totaling 1.54% of Loans
- › \$22.46 TBV Per Share, 11.9% Increase over 1Q 2019

Supporting our Employees' Health and Financial Stability

- › Enabled over 1,000 associates to work from home
- › Provided additional 80 hours of paid time off for all full time associates for COVID-19 related sick and dependent care
- › Covered the cost of any medical testing or care related to COVID-19 under medical plans
- › Supported employee physical health, mental health and financial wellness through Employee Assistance Program providing personalized counseling available 24/7
- › Around-the-clock personalized and confidential internal Human Resource support through myHR technology

Supporting Businesses in our Communities

- › SBA Paycheck Protection Program institution with more than 3,750 applications and greater than \$750 Million funded to businesses benefiting more than 120,000 employees (FMB is, and has been, a preferred SBA Lender)
- › Over \$200 Million in Commercial Loan modifications, ~3% of the portfolio
- › Evaluating and preparing for the potential rollout of the Main Street Lending Program to support larger businesses
- › Extending credit to qualified borrowers of all sizes for working capital
- › New Remote Deposit Capture and Wire modules provided to business clients for a specific period without monthly fees

Response to COVID-19

Supporting our Communities and Clients

- › First Merchants CARES... \$1,000,000 commitment to impacted First Merchants markets through local non profit organizations
- › All Banking Centers are open and accessible to clients by drive thru with lobby service and individual meetings by appointment
- › Leveraged digital banking, call center and banking centers to provide uninterrupted customer service
- › Enhanced mobile and online services, such as increased mobile deposit limits, to allow more transactions to be completed outside of the branch
- › Consumer and Mortgage Loan payment deferral for up to 90 days without incurring fees or impact to credit report
- › Hardship Bridge Loans (0% interest rate) to qualified consumer banking customers providing deferred payments for 90 days
- › Client alerts focused on COVID-19 Scams and Fraud Education and Prevention

Mark K. Hardwick

Executive Vice President

Chief Financial Officer and Chief Operating Officer

Total Assets

(\$ in Millions)	<u>2018</u>	<u>2019</u>	<u>Q1-'19</u>	<u>Q1-'20</u>
1. Investments	\$1,633	\$2,596	\$1,863	\$2,698
2. Loans	7,229	8,468	7,303	8,612
3. Allowance	(81)	(80)	(81)	(99)
4. Goodwill & Intangibles	470	579	468	577
5. BOLI	225	288	226	290
6. Other	<u>409</u>	<u>606</u>	<u>432</u>	<u>616</u>
7. Total Assets	<u>\$9,885</u>	<u>\$12,457</u>	<u>\$10,211</u>	<u>\$12,694</u>

Annualized Asset Growth

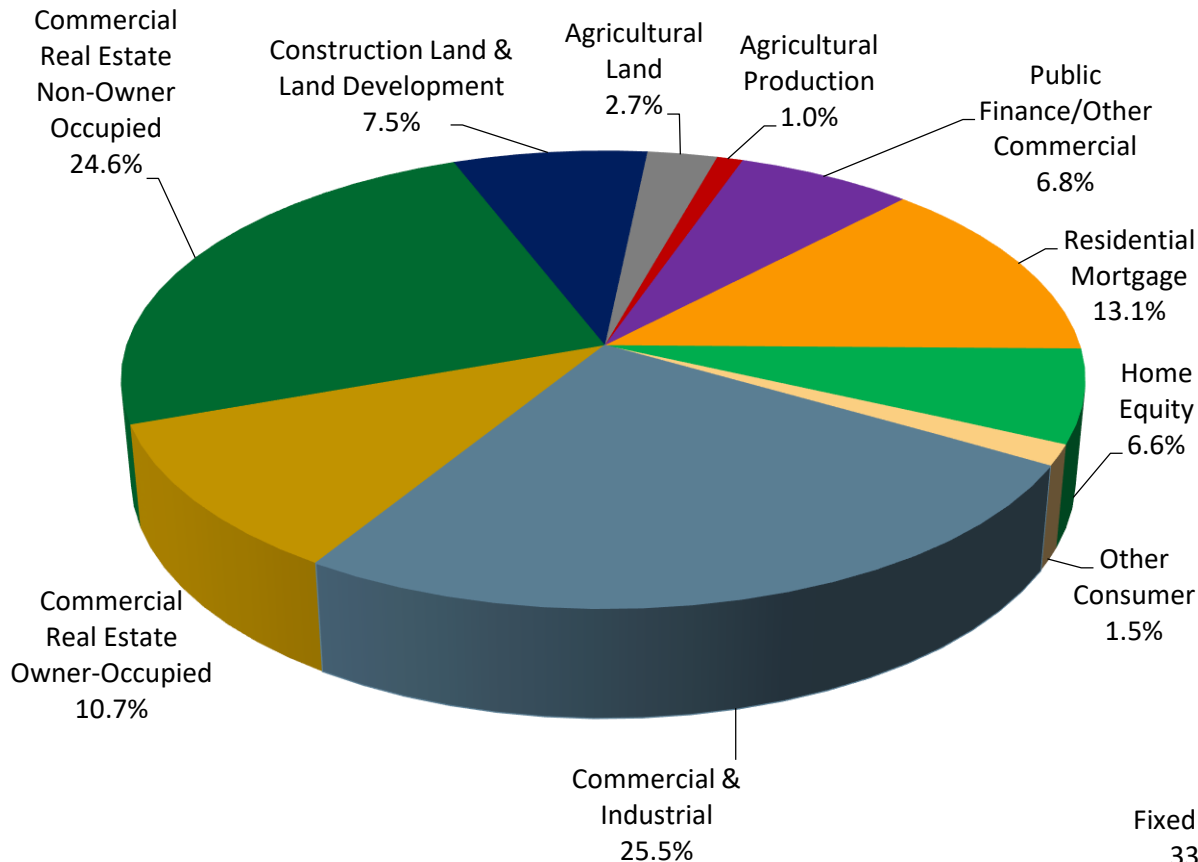
26.0%

7.6%¹

¹ Annualized from December 31, 2019

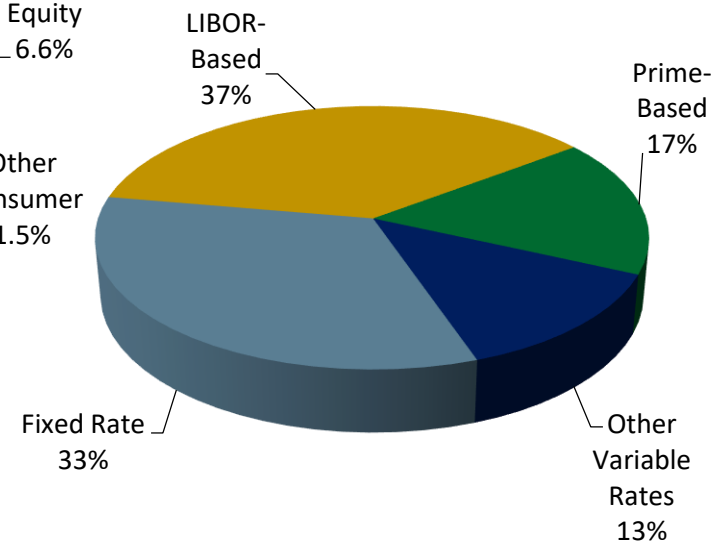
Loan Yield and Detail

(as of March 31, 2020)



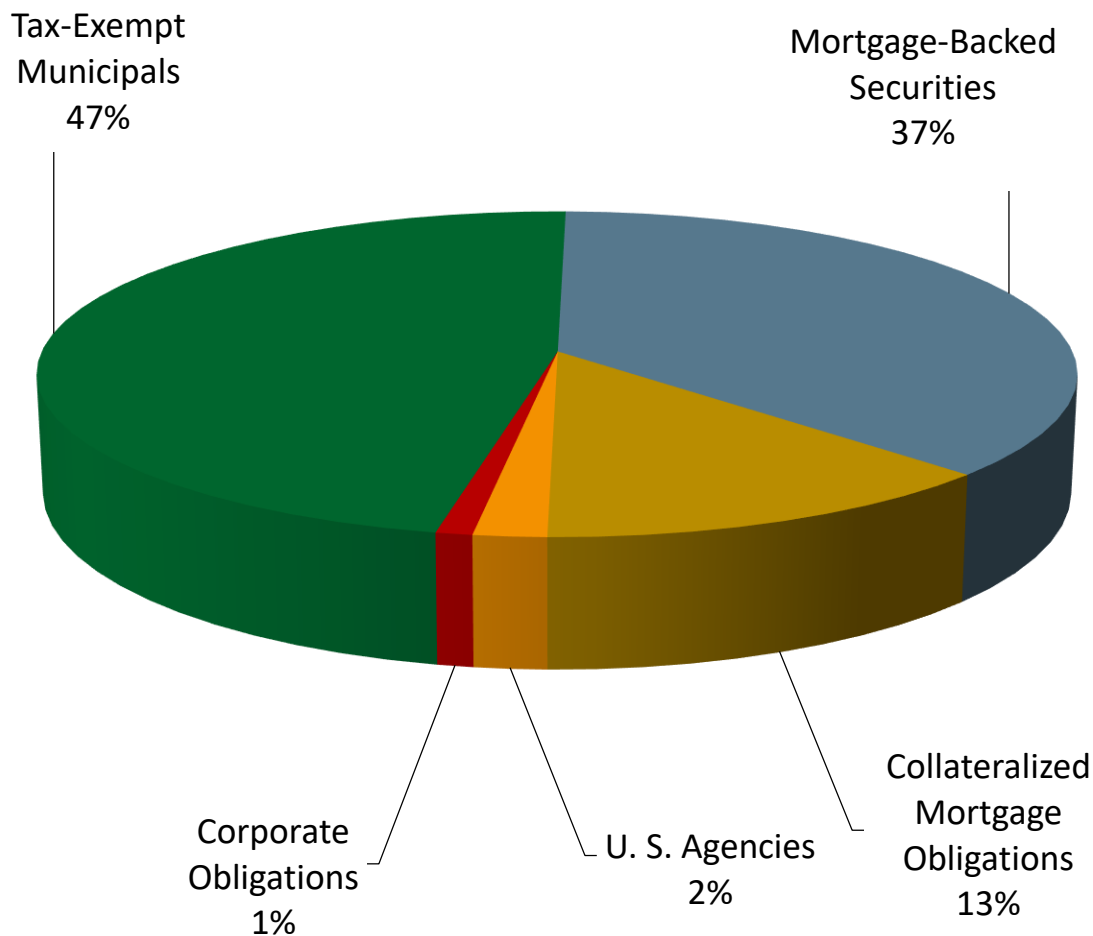
YTD Yield = 4.85%
 Total Loans = \$8.6 Billion

Variable = \$5.7 Billion
 Fixed = \$2.9 Billion



Investment Portfolio

(as of March 31, 2020)



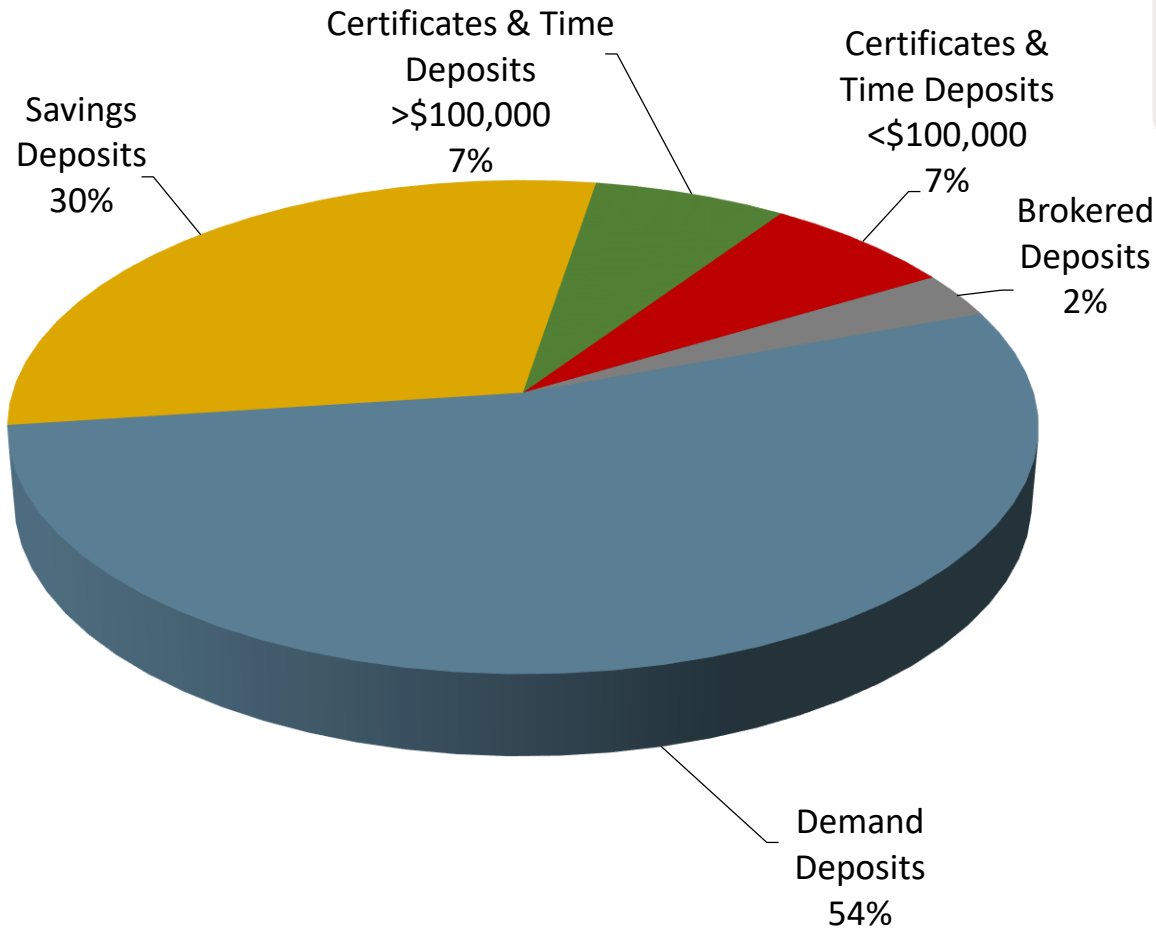
- › \$2.7 Billion Portfolio
- › Modified duration of 4.3 years
- › Tax equivalent yield of 3.16%
- › Net unrealized gain of \$121.7 Million

Total Liabilities and Capital

(\$ in Millions)	<u>2018</u>	<u>2019</u>	<u>Q1-'19</u>	<u>Q1-'20</u>
1. Customer Non-Maturity Deposits	\$6,268	\$8,147	\$6,439	\$8,256
2. Customer Time Deposits	1,241	1,478	1,375	1,411
3. Brokered Deposits	<u>246</u>	<u>215</u>	<u>234</u>	<u>203</u>
Total Deposits	7,755	9,840	8,048	9,870
4. Borrowings	538	599	481	716
5. Other Liabilities	51	98	92	206
6. Hybrid Capital	133	134	134	124
7. Common Equity	<u>1,408</u>	<u>1,786</u>	<u>1,456</u>	<u>1,778</u>
8. Total Liabilities and Capital	<u>\$9,885</u>	<u>\$12,457</u>	<u>\$10,211</u>	<u>\$12,694</u>

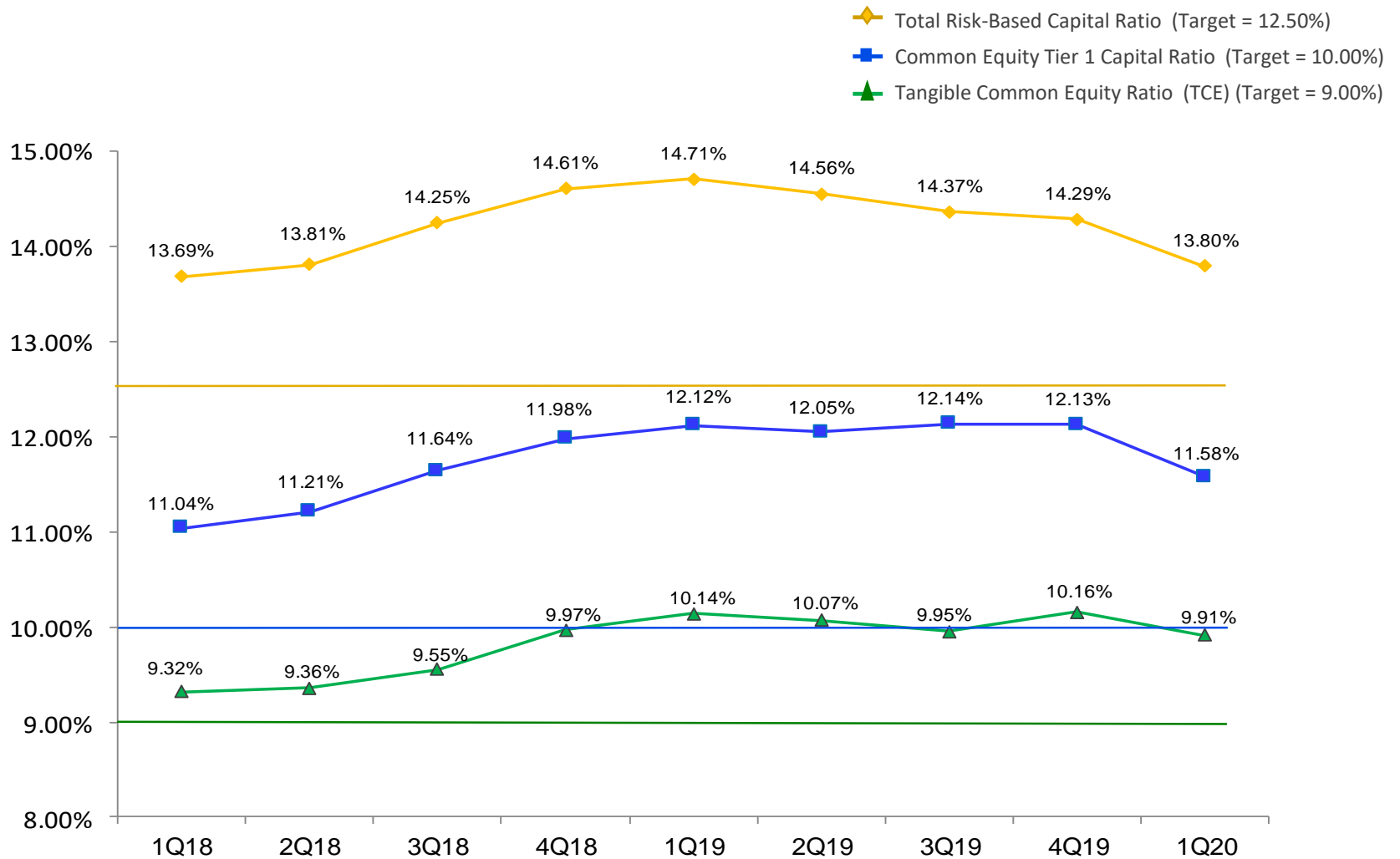
Deposit Detail

(as of March 31, 2020)



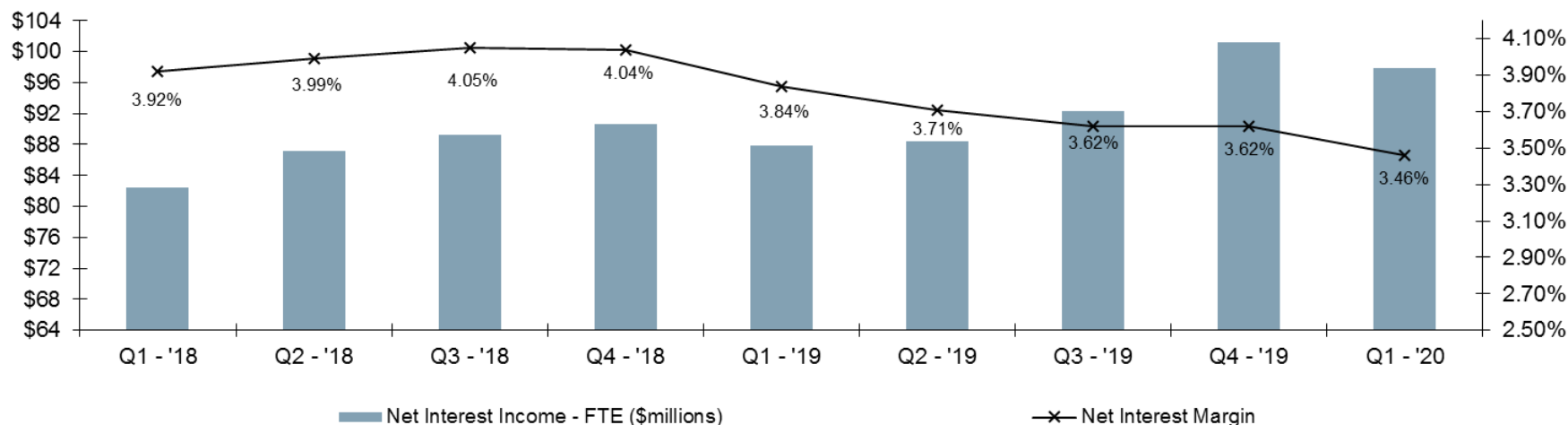
YTD Cost	=	1.06%
Total	=	\$9.9 Billion

Capital Ratios



Net Interest Margin

	<u>Q1 - '18</u>	<u>Q2 - '18</u>	<u>Q3 - '18</u>	<u>Q4 - '18</u>	<u>Q1 - '19</u>	<u>Q2 - '19</u>	<u>Q3 - '19</u>	<u>Q4 - '19</u>	<u>Q1 - '20</u>
Net Interest Income - FTE (\$millions)	\$ 82.5	\$ 87.2	\$ 89.2	\$ 90.7	\$ 87.8	\$ 88.4	\$ 92.3	\$ 101.2	\$ 97.8
Fair Value Accretion	\$ 3.2	\$ 3.8	\$ 3.2	\$ 3.9	\$ 2.3	\$ 2.2	\$ 2.5	\$ 5.0	\$ 3.5
Tax Equivalent Yield on Earning Assets	4.57%	4.74%	4.88%	4.97%	4.89%	4.86%	4.77%	4.63%	4.38%
Interest Expense/Average Earning Assets	0.65%	0.75%	0.83%	0.93%	1.05%	1.15%	1.15%	1.01%	0.92%
Net Interest Margin	3.92%	3.99%	4.05%	4.04%	3.84%	3.71%	3.62%	3.62%	3.46%
Fair Value Accretion Effect	0.15%	0.18%	0.15%	0.17%	0.09%	0.09%	0.10%	0.18%	0.12%



Non-Interest Income

(\$ in Millions)	<u>2018</u>	<u>2019</u>	<u>Q1-'19</u>	<u>Q1-'20</u>
1. Service Charges on Deposit Accounts	\$ 21.0	\$23.0	\$ 5.1	\$ 6.0
2. Wealth Management Fees	14.9	17.6	3.8	6.0
3. Card Payment Fees	18.0	20.2	4.8	5.9
4. Gains on Sales of Mortgage Loans	7.0	7.9	1.3	3.4
5. Derivative Hedge Fees	2.5	5.4	0.8	1.9
6. Other Customer Fees	1.9	1.7	0.5	0.4
7. Cash Surrender Value of Life Ins	4.2	4.5	1.0	1.4
8. Gains on Sales of Securities	4.3	4.4	1.1	4.6
9. Other	<u>2.7</u>	<u>2.0</u>	<u>0.3</u>	<u>0.2</u>
10. Total Non-Interest Income	<u>\$76.5</u>	<u>\$86.7</u>	<u>\$18.7</u>	<u>\$29.8</u>

Non-Interest Expense

(\$ in Millions)	<u>2018</u>	<u>2019</u>	<u>Q1-'19</u>	<u>Q1-'20</u>
1. Salary & Benefits	\$131.7	\$144.0	\$33.0	\$39.2
2. Premises & Equipment	32.7	35.8	8.7	10.2
3. Intangible Asset Amortization	6.7	6.0	1.5	1.5
4. Professional & Other Outside Services	8.2	15.4	1.9	2.3
5. OREO/Credit-Related Expense	1.5	2.4	1.2	0.5
6. FDIC Expense	2.9	0.7	0.7	1.5
7. Outside Data Processing	13.2	16.5	3.7	4.2
8. Marketing	4.7	6.7	1.1	1.4
9. Other	<u>18.4</u>	<u>19.3</u>	<u>4.8</u>	<u>5.3</u>
10. Total Non-Interest Expense	<u>\$220.0</u>	<u>\$246.8</u> ¹	<u>\$56.6</u>	<u>\$66.1</u>

¹Includes acquisition-related expenses of \$13.7 million

Earnings

(\$ in Millions)	<u>2018</u>	<u>2019</u>	<u>Q1-'19</u>	<u>Q1'20</u>
1. Net Interest Income	\$ 338.8	\$356.7	\$ 84.9	\$93.9
2. Provision for Loan Losses	<u>(7.2)</u>	<u>(2.8)</u>	<u>(1.2)</u>	<u>(19.8)</u>
3. Net Interest Income after Provision	331.6	353.9	83.7	74.1
4. Non-Interest Income	76.5	86.7	18.7	29.8
5. Non-Interest Expense	<u>(220.0)</u>	<u>(246.8)</u>	<u>(56.6)</u>	<u>(66.1)</u>
6. Income before Income Taxes	188.1	193.8	45.8	37.8
7. Income Tax Expense	<u>(29.0)</u>	<u>(29.3)</u>	<u>(6.9)</u>	<u>(3.5)</u>
8. Net Income Avail. for Distribution	<u>\$ 159.1</u>	<u>\$164.5</u>	<u>\$ 38.9</u>	<u>\$34.3</u>
9. EPS	\$ 3.22	\$ 3.19 ¹	\$ 0.78	\$0.62
10. Efficiency Ratio	50.21%	52.73% ²	51.18%	52.17%

¹Acquisition-related expenses reduced EPS by \$0.21

²Acquisition-related expenses increased the Efficiency Ratio by 3.04%

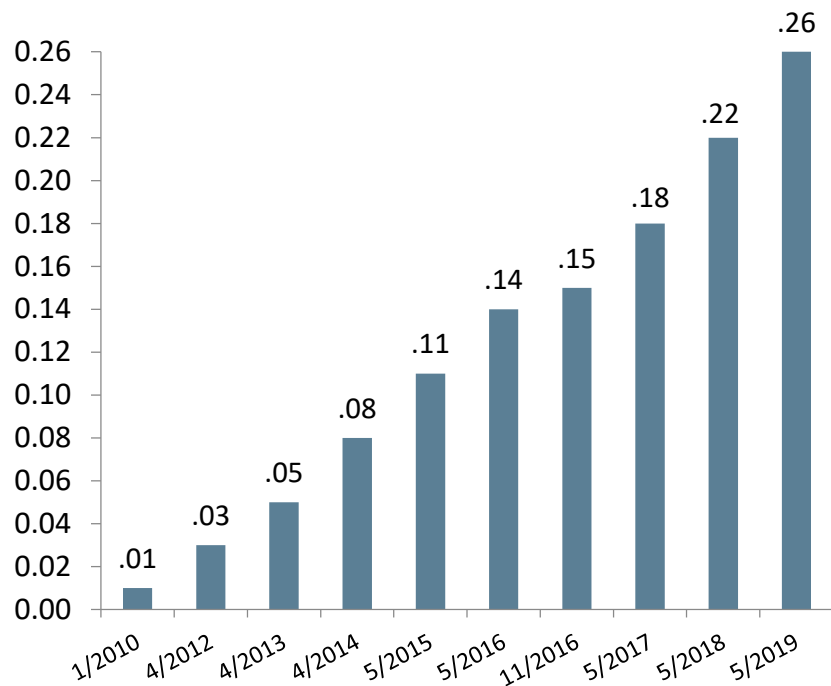
Per Share Results

<u>2019</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Total</u>
1. Earnings Per Share	\$.78	\$.83 ¹	\$.71 ¹	\$.87 ¹	\$ 3.19 ¹
2. Dividends	\$.22	\$.26	\$.26	\$.26	\$ 1.00
3. Tangible Book Value	\$20.07	\$21.01	\$21.26	\$21.94	
<u>2020</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Total</u>
1. Earnings Per Share	\$.62	–	–	–	\$.62
2. Dividends	\$.26	–	–	–	\$.26
3. Tangible Book Value	\$22.46				

¹Acquisition-related expenses reduced EPS by \$0.01 in Q2; \$0.17 in Q3; \$0.03 in Q4; and \$0.21 for full-year 2019

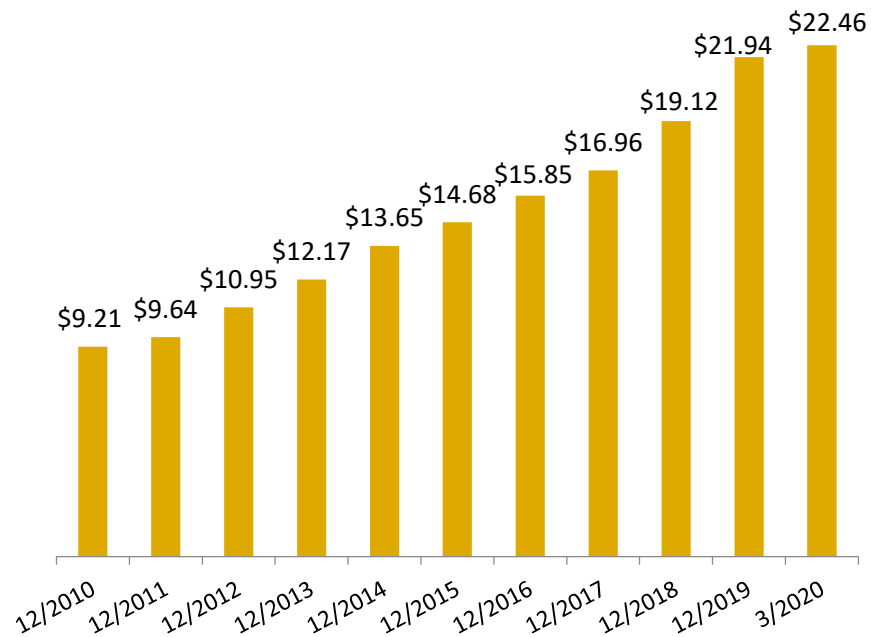
Dividends and Tangible Book Value

Quarterly Dividends



3.93% Forward Dividend Yield
Equals 41.9% Dividend Payout Ratio

Tangible Book Value



Compound Annual Growth Rate of 10.12%

Michele M. Kawiecki

Senior Vice President

Director of Finance

Other Impacts of CARES Act

› Deferral of CECL Elected

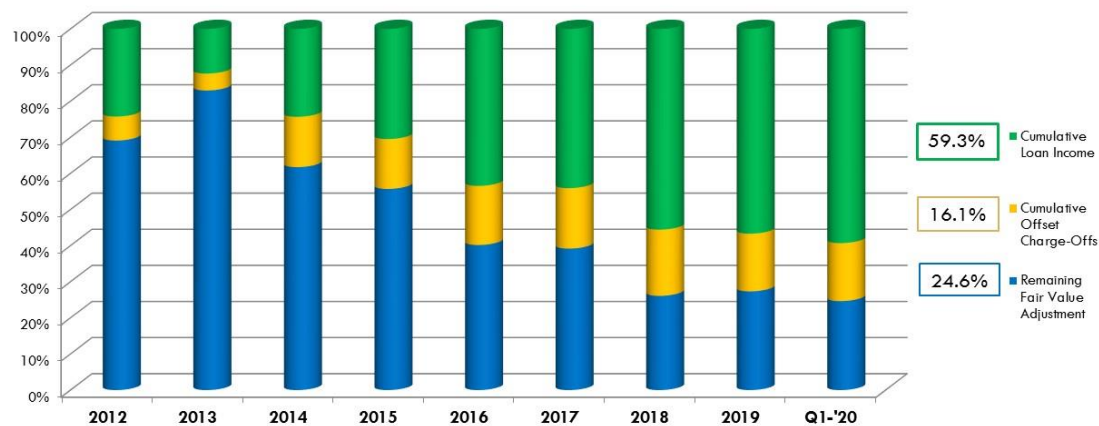
- › Provision calculated using the incurred loss method; Increase in 1Q Provision driven by qualitative factor for economic conditions
- › CECL preparedness reflected in 10-K disclosure of Day 1 CECL adoption increase of 55-65%
- › CECL models were validated in 4Q 2019
- › Moody's forecasts are used for CECL modeling
- › Loan default rates primarily correlated with Unemployment Rate in CECL models

› Effective Tax Rate

- › Rate is low due to \$1.2 Million in Net Operating Loss Carry Back and level of Provision

ALLL and Fair Value Summary

(\$ in Millions)	<u>Q2-'19</u>	<u>Q3-'19</u>	<u>Q4-'19</u>	<u>Q1-'20</u>
1. Beginning Allowance for Loan Losses (ALLL)	\$ 80.9	\$ 81.3	\$ 80.6	\$ 80.3
2. Less: Net Charge-offs (Recoveries)	0.1	1.3	0.8	0.6
3. Add: Provision Expense	<u>0.5</u>	<u>0.6</u>	<u>0.5</u>	<u>19.8</u>
4. Ending Allowance for Loan Losses (ALLL)	\$ 81.3	\$ 80.6	\$ 80.3	\$ 99.5
<hr/>				
5. Specific Reserves	\$ 2.3	\$ 2.3	\$ 0.7	\$ 0.6
6. ALLL/Non-Accrual Loans	317.0%	354.5%	503.4%	635.5%
7. ALLL/Non-Purchased Loans	1.19%	1.16%	1.11%	1.33%
8. ALLL/Loans	1.08%	0.97%	0.95%	1.15%
<hr/>				
9. Fair Value Adjustment (FVA)	\$ 25.6	\$ 41.3	\$ 36.6	\$ 33.1
10. Total ALLL plus FVA	106.8	121.9	116.9	132.5
11. Purchased Loans plus FVA	732.5	1,410.3	1,271.2	1,155.1
12. FVA/Purchased Loans plus FVA	3.49%	2.93%	2.88%	2.86%



John J. Martin

Executive Vice President

Chief Credit Officer

Loan Portfolio Trends

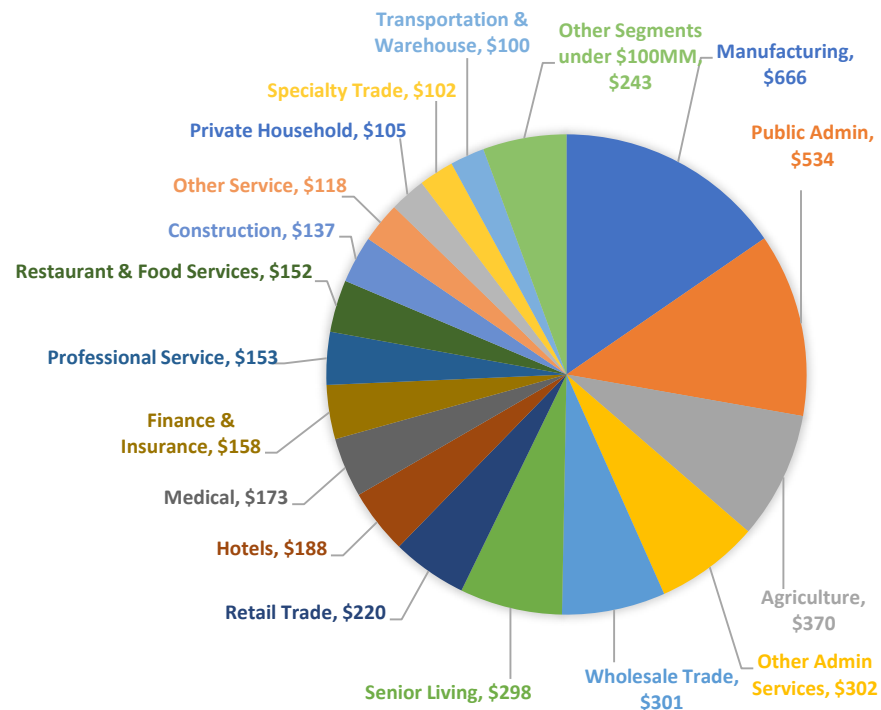
(\$ in Millions)	2018	2019	Q1-'19	Q1-'20	Change Linked Quarter		Change Year Over Year	
					\$	%	\$	%
1. Commercial & Industrial	\$ 1,498	\$ 1,802	\$ 1,521	\$ 1,858	\$ 56	3.1%	\$ 337	22.2%
2. Sponsor Finance	233	312	272	345	33	10.6%	73	26.8%
3. CRE Owner Occupied	725	910	714	921	11	1.2%	207	29.0%
4. Construction, Land and Land Development	546	787	542	644	(143)	(18.2%)	102	18.8%
5. CRE Non-Owner Occupied	1,861	1,899	1,884	2,114	215	11.3%	230	12.2%
6. Agricultural Production	92	94	80	87	(7)	(7.4%)	7	8.8%
7. Agricultural Land	242	240	237	229	(11)	(4.6%)	(8)	(3.4%)
8. Public Finance/Other Commercial	<u>433</u>	<u>547</u>	<u>428</u>	<u>587</u>	<u>40</u>	7.3%	<u>159</u>	37.1%
9. Total Commercial Loans	5,630	6,591	5,678	6,785	194	2.9%	1,107	19.5%
10. Residential Mortgage	970	1,149	980	1,127	(22)	(1.9%)	147	15.0%
11. Home Equity	528	589	536	570	(19)	(3.2%)	34	6.3%
12. Other Consumer	<u>101</u>	<u>139</u>	<u>109</u>	<u>130</u>	<u>(9)</u>	(6.5%)	<u>21</u>	19.3%
13. Total Residential Mortgage and Consumer Loans	<u>1,599</u>	<u>1,877</u>	<u>1,625</u>	<u>1,827</u>	<u>(50)</u>	<u>(2.7%)</u>	<u>202</u>	<u>12.4%</u>
14. Total Loans	\$ 7,229	\$ 8,468	\$ 7,303	\$ 8,612	\$ 144	1.7%	\$ 1,309	17.9%
Construction Concentration ¹	50%	62%	49%	49%				
Investment RE Concentration ¹	221%	212%	221%	208%				

¹As a % of Risk Based Capital

Commercial Portfolio by NAICS

(\$ in Millions)

Segments based on NAICS Code	Q1 - '20	Percent	Average
	Balances	of Total Loans	Loan Size
Manufacturing	\$ 666	7.7%	\$ 0.8
Public Administration	534	6.2%	3.6
Agriculture	370	4.3%	0.2
Other Administrative Services	302	3.5%	0.4
Wholesale Trade	301	3.5%	0.7
Senior Living	298	3.5%	5.2
Retail Trade	220	2.6%	0.2
Hotels	188	2.2%	2.1
Medical	173	2.0%	0.6
Finance & Insurance	158	1.8%	0.6
Professional Service	153	1.8%	0.3
Restaurant & Food Services ¹	152	1.8%	0.3
Construction	137	1.6%	0.2
Other Service	118	1.4%	0.2
Private Banking/Private Household	105	1.2%	0.3
Specialty Trade	102	1.2%	0.1
Transportation & Warehouse	100	1.2%	0.1
Religious Organizations	98	1.1%	0.4
Dental	86	1.0%	0.2
Mining & Utilities	38	0.4%	1.2
Veterinary	21	0.2%	0.2
Total Commercial Portfolio by NAICS	4,320	50.2%	0.4
Lessors of Real Estate NAICS	2,465	28.6%	
Mortgage and Consumer Loans	1,827	21.2%	
Total Loans	\$ 8,612	100.0%	



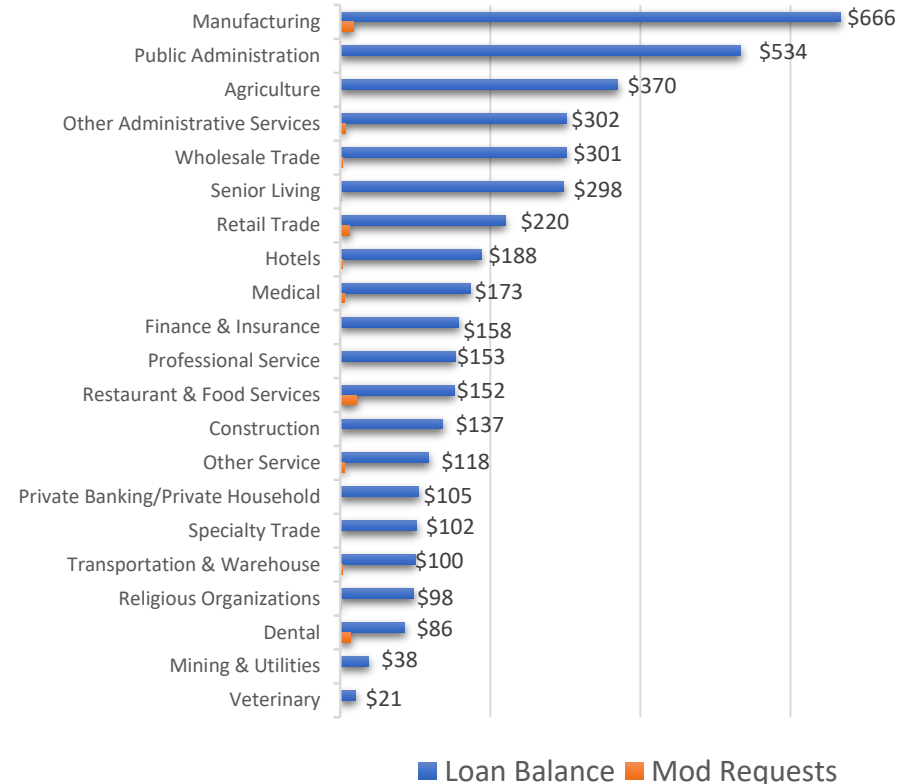
¹ \$44MM of loans with NAICS of Lessors of RE have been moved to Restaurants for clearer illustration of exposure.

Commercial Portfolio Mod Requests

(\$ in Millions)

Segments based on NAICS Code	Q1 - '20 Balances	% Loans with Mods	\$ Loans with Mods
Manufacturing	\$ 666	2.5%	\$ 16.9
Public Administration	534	-	-
Agriculture	370	-	-
Other Administrative Services	302	2.3%	6.8
Wholesale Trade	301	1.0%	3.0
Senior Living	298	0.6%	1.7
Retail Trade	220	5.6%	12.4
Hotels	188	1.8%	3.3
Medical	173	2.8%	4.9
Finance & Insurance	158	-	0.1
Professional Service	153	-	0.1
Restaurant & Food Services ¹	152	14.3%	21.8
Construction	137	0.6%	0.8
Other Services	118	4.8%	5.7
Private Banking/Private Household	105	0.2%	0.2
Specialty Trade	102	0.5%	0.5
Transportation & Warehouse	100	2.8%	2.8
Religious Organizations	98	2.1%	2.1
Dental	86	16.5%	14.2
Mining & Utilities	38	-	-
Veterinary	21	-	-
Total Commercial Portfolio by NAICS	4,320	2.3%	97.3
Lessors of Real Estate NAICS	2,465	4.5%	110.2
Mortgage and Consumer Loans	<u>1,827</u>	1.4%	<u>26.2</u>
Total Loans	\$ 8,612		\$233.7

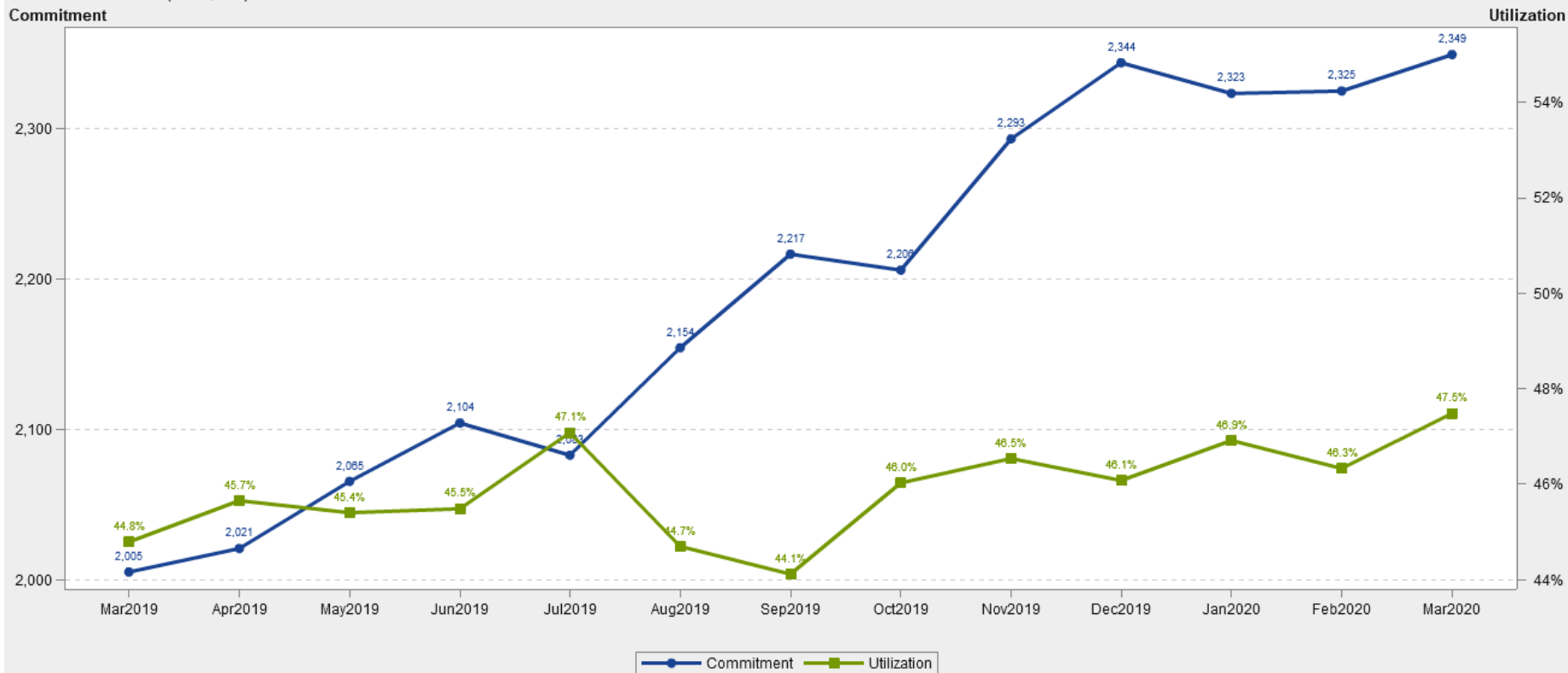
Mod Requests and Loan Balances (\$ in Millions)



¹ \$44MM of loans with NAICS of Lessors of RE have been moved to Restaurants for clearer illustration of exposure.

C & I Line Utilization

C & I Line Utilization (\$000,000)



- › Line utilization stable Year over Year
- › Isolated instances of defensive line draws

Structured Finance

Public Finance (2015)

- › \$560MM in loans and \$1.5B in deposits
- › 85% Tax Based and 15% Public Private Partnerships

Sponsor Finance (2016)

- › \$430MM in Commitments and \$345MM in Balances

Debt Capital Markets (2018)

- › Primarily working Sell Side Transactions (FMB as Agent)
- › Investment Real Estate, Middle Market and Sponsor support

Asset Based Lending (2019)

- › Systemically controlled draw process monitored by Secured Credit Department
- › First Marketing piece mailed April 13, 2020

Sponsor Finance

- › Market to Private Equity Firms in the Midwest and Southeast who acquire companies with less than \$10 Million in EBITDA.
- › Led by former Midwest Region Chief Risk Officer for GE Corporate Lending
- › Monthly Portfolio Sheets Reviewed by Sponsor Finance line of business
- › Quarterly Portfolio Review with Chief Credit Officer / Chief Banking Officer
- › Senior Secured, Amortizing Term Loans and Revolving Lines of Credit
- › Summary
 - › 38 Borrowers, \$430 Million Committed and \$345 Million Outstanding
 - › 14 Borrowers with Senior Leverage < 2x
 - › 7 Borrowers with Senior Leverage > 3x (2 of which are ABL)
 - › 1 Substandard Borrower (\$25 Million Senior / \$12 Million Junior / \$85 Million Equity)
 - › 5 Borrowers seeking COVID P&I Deferrals

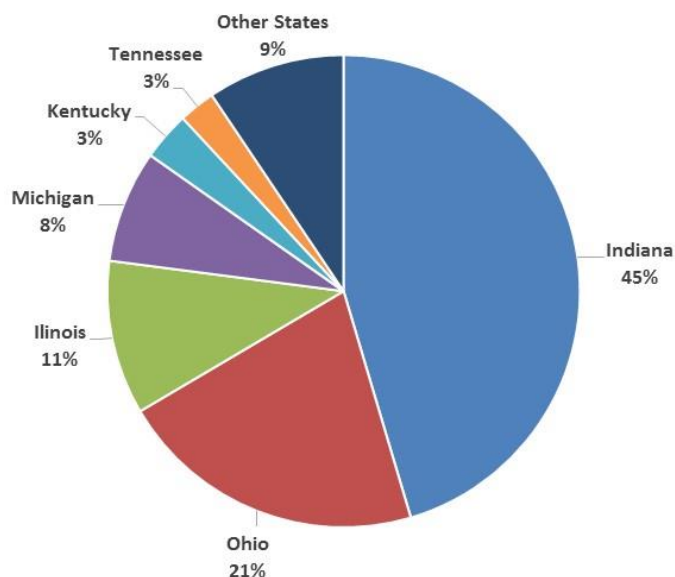
Investment Real Estate

(\$ in Millions)

	Q1 - '20 Balances	Percent of Total Loans	Average Loan Size	% Loans with Mods	\$ Loans with Mods
Investment Real Estate					
Multi-family	\$ 703	8.2%	\$ 1.3	1.6%	\$ 11.5
Commercial Real Estate	1,411	16.4%	1.1	5.3%	75.2
	<u>\$ 2,114</u>				<u>\$ 86.7</u>

} Retail - \$233 million

Investment Real Estate Loans by State

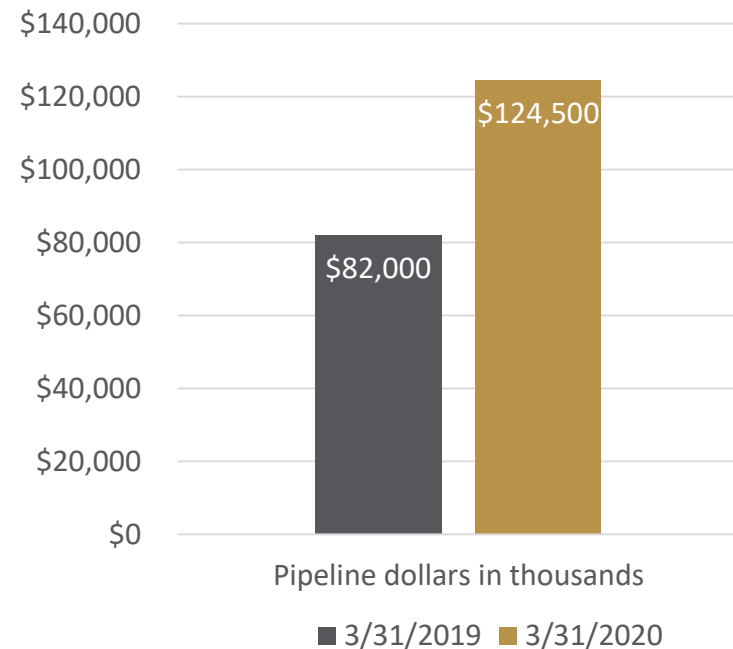


Top Metro Areas	Balance	% Total Inv. RE
Indianapolis, IN	\$ 323	15.3%
Columbus, OH	214	10.1%
Chicago, IL	188	8.9%
Northwest Indiana	144	6.8%
Fort Wayne, IN	130	6.1%
Detroit, MI	76	3.6%

Mortgage Lending

- › Pipeline strong with dollars up 52% at the end of the 1st quarter Year over Year
- › Strong refinance demand has allowed for small price premium to market
- › Placing 15 year fixed rate fully salable on balance sheet at yield favorable to comparable MBS
- › Able to offer extended locks with minimal impact on gain sale percentage
- › The jumbo market for existing home purchases remains strong in our Columbus and Indianapolis markets. Placing 7/1 and 10/1 jumbo mortgages on balance sheet

Mortgage Pipeline



Residential Mortgage & Consumer Loan Mods

(\$ in Millions)

Residential Mortgage and Consumer Loans	Q1 - '20 Balances	Percent of Total Loans	% Loans with Mods	\$ Loans with Mods
Residential Mortgage	\$ 1,127	13.1%	2.2%	\$24.6
Home Equity	570	6.6%	0.1%	0.8
Other Consumer	<u>130</u>	<u>1.5%</u>	0.6%	<u>0.8</u>
	\$ 1,827	21.2%	1.4%	\$26.2

Asset Quality Summary

(\$ in Millions)

	<u>2018</u>	<u>2019</u>	<u>Q1-'19</u>	<u>Q1-'20</u>	Change Linked Quarter		Change Year Over Year	
					<u>\$</u>	<u>%</u>	<u>\$</u>	<u>%</u>
1. Non-Accrual Loans	\$ 26.1	\$ 16.0	\$ 28.0	\$ 15.6	\$ (0.4)	(2.5%)	\$ (12.4)	(44.3%)
2. Other Real Estate	2.2	7.5	1.9	8.0	0.5	6.7%	6.1	321.1%
3. Renegotiated Loans	1.1	0.8	0.7	0.7	(0.1)	(12.5%)	-	-
4. 90+ Days Delinquent Loans	1.9	0.1	0.1	0.3	0.2	200.0%	0.2	200.0%
5. Total NPAs & 90+ Days Delinquent	\$ 31.3	\$ 24.4	\$ 30.7	\$ 24.6	\$ 0.2	0.8%	\$ (6.1)	(19.9%)
6. Total NPAs & 90+ Days/Loans & ORE	0.4%	0.3%	0.4%	0.3%				
7. Classified Loans	\$167.4	\$200.1	\$165.1	\$207.0	\$ 6.9	3.4%	\$ 41.9	25.4%
8. Classified Loans/Total Loans	2.3%	2.4%	2.3%	2.4%				

Non-Performing Asset Reconciliation

(\$ in Millions)

	<u>Q2-'19</u>	<u>Q3-'19</u>	<u>Q4-'19</u>	<u>Q1-'20</u>
1. Beginning Balance NPAs & 90+ Days Delinquent	\$ 30.7	\$ 27.6	\$ 30.5	\$ 24.4
<u>Non-Accrual</u>				
2. Add: New Non-Accruals	1.6	7.5	2.3	2.8
3. Less: To Accrual/Payoff/Renegotiated	(2.5)	(2.1)	(6.9)	(1.2)
4. Less: To OREO	-	(6.4)	(0.8)	(0.7)
5. Less: Charge-offs	<u>(1.5)</u>	<u>(1.9)</u>	<u>(1.3)</u>	<u>(1.3)</u>
6. Increase / (Decrease): Non-Accrual Loans	(2.4)	(2.9)	(6.7)	(0.4)
<u>Other Real Estate Owned (ORE)</u>				
7. Add: New ORE Properties	-	6.5	0.8	0.7
8. Less: ORE Sold	(0.5)	(0.4)	(0.3)	(0.2)
9. Less: ORE Losses (write-downs)	<u>(0.3)</u>	<u>(0.1)</u>	<u>(0.1)</u>	<u>-</u>
10. Increase / (Decrease): ORE	(0.8)	6.0	0.4	0.5
11. Increase / (Decrease): 90+ Days Delinquent	0.1	(0.1)	-	0.2
12. Increase / (Decrease): Renegotiated Loans	<u>-</u>	<u>(0.1)</u>	<u>0.2</u>	<u>(0.1)</u>
13. Total NPAs & 90+ Days Delinquent Change	(3.1)	2.9	(6.1)	0.2
14. Ending Balance NPAs & 90+ Days Delinquent	\$ 27.6	\$ 30.5	\$ 24.4	\$ 24.6

Portfolio Summary

- › Proactively engaging customers to chart path forward
- › Using modifications to bridge and strategize
- › Beginning the cycle with stronger credit profile and enhanced processes
- › PPP forgiveness planning underway in anticipation of guidance
- › Experienced workout staff with special asset process from last recession
- › Maintaining existing underwriting standards while recognizing the impact of the situation

Michael C. Rechin

President

Chief Executive Officer

First Merchants Value Proposition

Looking Forward...

- › Pre-Tax Pre-Provision Earnings strength of \$57.5 Million
- › Tangible Common Equity of nearly 10%
- › Allowance for loan losses & fair value marks total approximately 1.54% of loans
- › 87% loan-to-deposit ratio produces excess liquidity
- › Conservative underwriter, diversified loan portfolio, long-term consistent asset quality
- › Industry leading profitability, Return on Assets, and Efficiency Ratios
- › Trading multiple of just over 100% of Tangible Book Value is 50% of our historical average
- › Well positioned for this challenge . . . and for the future

“Strength and Stability”



**First Merchants Bank
Ranked Top 5 in
2018, 2019 and 2020**



First Merchants Corporation common stock is traded
on the NASDAQ Global Select Market under the symbol FRME

Additional information can be found at
www.firstmerchants.com

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Appendix

Appendix – Non-GAAP Reconciliation

CAPITAL RATIOS (dollars in thousands):

	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20
<u>Total Risk-Based Capital Ratio</u>									
Total Stockholders' Equity (GAAP)	1,313,073	1,340,328	1,361,426	1,408,260	1,455,848	1,501,636	1,749,012	1,786,437	1,777,960
Adjust for Accumulated Other Comprehensive (Income) Loss	21,725	24,868	35,409	21,422	1,595	(14,602)	(25,648)	(27,874)	(53,656)
Less: Preferred Stock	(125)	(125)	(125)	(125)	(125)	(125)	(125)	(125)	(125)
Add: Qualifying Capital Securities	65,975	66,030	66,086	66,141	66,197	66,252	66,308	66,363	56,419
Less: Tier 1 Capital Deductions	-	-	-	-	-	-	-	-	-
Less: Disallowed Goodwill and Intangible Assets	(467,518)	(466,063)	(464,658)	(463,525)	(462,202)	(460,885)	(570,098)	(569,468)	(568,442)
Less: Disallowed Deferred Tax Assets	(2,594)	(2,104)	(1,111)	-	(4,037)	(2,587)	(3,460)	-	-
Total Tier 1 Capital (Regulatory)	\$ 930,536	\$ 962,934	\$ 997,027	\$ 1,032,173	\$ 1,057,276	\$ 1,089,689	\$ 1,215,989	\$ 1,255,333	\$ 1,212,156
Qualifying Subordinated Debentures	65,000	65,000	65,000	65,000	65,000	65,000	65,000	65,000	65,000
Allowance for Loan Losses includible in Tier 2 Capital	76,420	77,543	78,406	80,552	80,902	81,274	80,571	80,284	99,454
Total Risk-Based Capital (Regulatory)	\$ 1,071,956	\$ 1,105,477	\$ 1,140,433	\$ 1,177,725	\$ 1,203,178	\$ 1,235,963	\$ 1,361,560	\$ 1,400,617	\$ 1,376,610
Net Risk-Weighted Assets (Regulatory)	\$ 7,831,727	\$ 8,002,666	\$ 8,001,191	\$ 8,060,882	\$ 8,176,677	\$ 8,491,188	\$ 9,474,126	\$ 9,799,329	\$ 9,978,462
Total Risk-Based Capital Ratio (Regulatory)	13.69%	13.81%	14.25%	14.61%	14.71%	14.56%	14.37%	14.29%	13.80%
<u>Common Equity Tier 1 Capital Ratio</u>									
Total Tier 1 Capital (Regulatory)	\$ 930,536	\$ 962,934	\$ 997,027	\$ 1,032,173	\$ 1,057,276	\$ 1,089,689	\$ 1,215,989	\$ 1,255,333	\$ 1,212,156
Less: Qualified Capital Securities	(65,975)	(66,030)	(66,086)	(66,141)	(66,197)	(66,252)	(66,308)	(66,363)	(56,419)
Add: Additional Tier 1 Capital Deductions	-	-	-	-	-	-	-	-	-
Common Equity Tier 1 Capital (Regulatory)	\$ 864,561	\$ 896,904	\$ 930,941	\$ 966,032	\$ 991,079	\$ 1,023,437	\$ 1,149,681	\$ 1,188,970	\$ 1,155,737
Net Risk-Weighted Assets (Regulatory)	\$ 7,831,727	\$ 8,002,666	\$ 8,001,191	\$ 8,060,882	\$ 8,176,677	\$ 8,491,188	\$ 9,474,126	\$ 9,799,329	\$ 9,978,462
Common Equity Tier 1 Capital Ratio (Regulatory)	11.04%	11.21%	11.64%	11.98%	12.12%	12.05%	12.14%	12.13%	11.58%

¹ Includes net unrealized gains or losses on securities available for sale, 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.

Appendix – Non-GAAP Reconciliation

TANGIBLE COMMON EQUITY RATIO (dollars in thousands):

	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20
Total Stockholders' Equity (GAAP)	\$ 1,313,073	\$ 1,340,328	\$ 1,361,426	\$ 1,408,260	\$ 1,455,848	\$ 1,501,636	\$ 1,749,012	\$ 1,786,437	\$ 1,777,960
Less: Preferred Stock	(125)	(125)	(125)	(125)	(125)	(125)	(125)	(125)	(125)
Less: Intangible Assets	(474,777)	(473,059)	(471,409)	(469,784)	(468,256)	(466,736)	(579,751)	(578,881)	(577,366)
Tangible Common Equity (non-GAAP)	\$ 838,171	\$ 867,144	\$ 889,892	\$ 938,351	\$ 987,467	\$ 1,034,775	\$ 1,169,136	\$ 1,207,431	\$ 1,200,469
Total Assets (GAAP)	\$ 9,472,796	\$ 9,734,715	\$ 9,787,282	\$ 9,884,716	\$ 10,210,925	\$ 10,737,857	\$ 12,325,061	\$ 12,457,254	\$ 12,693,518
Less: Intangible Assets	(474,777)	(473,059)	(471,409)	(469,784)	(468,256)	(466,736)	(579,751)	(578,881)	(577,366)
Tangible Assets (non-GAAP)	\$ 8,998,019	\$ 9,261,656	\$ 9,315,873	\$ 9,414,932	\$ 9,742,669	\$ 10,271,121	\$ 11,745,310	\$ 11,878,373	\$ 12,116,152
Tangible Common Equity Ratio (non-GAAP)	9.32%	9.36%	9.55%	9.97%	10.14%	10.07%	9.95%	10.16%	9.91%

TANGIBLE COMMON EQUITY PER SHARE (dollars in thousands):

	4Q10	4Q11	4Q12	4Q13	4Q14	4Q15	4Q16	4Q17	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20
Total Stockholders' Equity (GAAP)	\$ 454,408	\$ 514,467	\$ 552,236	\$ 634,923	\$ 726,827	\$ 850,509	\$ 901,657	\$ 1,303,463	\$ 1,408,260	\$ 1,455,848	\$ 1,501,636	\$ 1,749,012	\$ 1,786,437	\$ 1,777,960
Less: Preferred Stock	(67,880)	(90,783)	(90,908)	(125)	(125)	(125)	(125)	(125)	(125)	(125)	(125)	(125)	(125)	(125)
Less: Intangible Assets	(154,019)	(150,471)	(149,529)	(202,767)	(218,755)	(259,764)	(258,866)	(476,503)	(469,784)	(468,256)	(466,736)	(579,751)	(578,881)	(577,366)
Tax Benefit	2,907	2,224	2,249	4,973	6,085	6,278	5,930	6,788	5,017	4,703	4,391	7,627	7,257	6,946
Tangible Common Equity, Net of Tax (non-GAAP)	\$ 235,416	\$ 275,437	\$ 314,048	\$ 437,004	\$ 514,032	\$ 596,898	\$ 648,596	\$ 833,623	\$ 943,368	\$ 992,170	\$ 1,039,166	\$ 1,176,763	\$ 1,214,688	\$ 1,207,415
Shares Outstanding	25,574,251	28,559,707	28,692,616	35,921,761	37,669,948	40,664,258	40,912,697	49,158,238	49,349,800	49,428,468	49,456,594	55,345,672	55,368,482	53,754,137
Tangible Common Equity per Share (non-GAAP)	\$ 9.21	\$ 9.64	\$ 10.95	\$ 12.17	\$ 13.65	\$ 14.68	\$ 15.85	\$ 16.96	\$ 19.12	\$ 20.07	\$ 21.01	\$ 21.26	\$ 21.94	\$ 22.46

Appendix – Non-GAAP Reconciliation

EFFICIENCY RATIO (dollars in thousands):

	<u>2018</u>	<u>1Q19</u>	<u>2019</u>	<u>1Q20</u>
Non Interest Expense (GAAP)	\$ 219,951	\$ 56,621	\$ 246,763	\$ 66,171
Less: Intangible Asset Amortization	(6,719)	(1,528)	(5,994)	(1,514)
Less: OREO and Foreclosure Expenses	(1,470)	(1,165)	(2,428)	(505)
Adjusted Non Interest Expense (non-GAAP)	<u>211,762</u>	<u>53,928</u>	<u>238,341</u>	<u>64,152</u>
Net Interest Income (GAAP)	338,857	84,866	356,660	93,877
Plus: Fully Taxable Equivalent Adjustment	10,732	2,930	13,085	3,894
Net Interest Income on a Fully Taxable Equivalent Basis (non-GAAP)	<u>349,589</u>	<u>87,796</u>	<u>369,745</u>	<u>97,771</u>
Non Interest Income (GAAP)	76,459	18,713	86,688	29,799
Less: Investment Securities Gains (Losses)	(4,269)	(1,140)	(4,415)	(4,612)
Adjusted Non Interest Income (non-GAAP)	<u>72,190</u>	<u>17,573</u>	<u>82,273</u>	<u>25,187</u>
Adjusted Revenue (non-GAAP)	<u>421,779</u>	<u>105,369</u>	<u>452,018</u>	<u>122,958</u>
Efficiency Ratio (non-GAAP)	50.21%	51.18%	52.73%	52.17%

FORWARD DIVIDEND YIELD

	<u>1Q20</u>
Most recent quarter's dividend per share	\$ 0.26
Most recent quarter's dividend per share - Annualized	\$ 1.04
Stock Price at 3/31/20	\$ 26.49
Forward Dividend Yield	3.93%

DIVIDEND PAYOUT RATIO

	<u>2020 YTD</u>
Dividends per share	\$ 0.26
Earnings Per Share	\$ 0.62
Dividend Payout Ratio	41.9%

Appendix – Non-GAAP Reconciliation

CONSTRUCTION AND INVESTMENT REAL ESTATE CONCENTRATIONS (dollars in thousands):

	2018	1Q19	2019	1Q20
Total Risk-Based Capital (Subsidiary Bank Only)				
Total Stockholders' Equity (GAAP)	\$ 1,456,220	\$ 1,487,947	\$ 1,787,006	\$ 1,850,513
Adjust for Accumulated Other Comprehensive (Income) Loss ¹	19,031	(908)	(30,495)	(56,807)
Less: Preferred Stock	(125)	(125)	(125)	(125)
Less: Tier 1 Capital Deductions	-	-	-	-
Less: Disallowed Goodwill and Intangible Assets	(463,076)	(461,754)	(569,021)	(567,994)
Less: Disallowed Deferred Tax Assets	-	(4,119)	-	-
Total Tier 1 Capital (Regulatory)	1,012,050	1,021,041	1,187,365	1,225,587
Allowance for Loan Losses includible in Tier 2 Capital	80,552	80,902	80,284	99,454
Total Risk-Based Capital (Regulatory)	\$ 1,092,602	\$ 1,101,943	\$ 1,267,649	\$ 1,325,041
Construction, Land and Land Development Loans	\$ 545,729	\$ 542,501	\$ 787,568	\$ 643,674
Concentration as a % of the Bank's Risk-Based Capital	50%	49%	62%	49%
Construction, Land and Land Development Loans	\$ 545,729	\$ 542,501	\$ 787,568	\$ 643,674
Investment Real Estate Loans	1,865,544	1,887,995	1,902,692	2,118,148
Total Construction and Investment RE Loans	\$ 2,411,273	\$ 2,430,496	\$ 2,690,260	\$ 2,761,822
Concentration as a % of the Bank's Risk-Based Capital	221%	221%	212%	208%

¹ Includes net unrealized gains or losses on securities available for sale, 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.

ALLOWANCE AS A PERCENTAGE OF NON-PURCHASED LOANS (dollars in thousands):

	2Q19	3Q19	4Q19	1Q20
Loans Held for Sale (GAAP)	\$ 5,854	\$ 7,910	\$ 9,037	\$ 5,039
Loans (GAAP)	7,511,370	8,299,260	8,459,310	8,606,849
Total Loans	7,517,224	8,307,170	8,468,347	8,611,888
Less: Purchased Loans	(706,916)	(1,369,064)	(1,234,616)	(1,122,063)
Non-Purchased Loans (non-GAAP)	\$ 6,810,308	\$ 6,938,106	\$ 7,233,731	\$ 7,489,825
Allowance for Loan Losses (GAAP)	\$ 81,274	\$ 80,571	\$ 80,284	\$ 99,454
Fair Value Adjustment (FVA) (GAAP)	25,545	41,265	36,622	33,058
Allowance plus FVA (non-GAAP)	\$ 106,819	\$ 121,836	\$ 116,906	\$ 132,512
Purchased Loans (GAAP)	\$ 706,916	\$ 1,369,064	\$ 1,234,616	\$ 1,122,063
Fair Value Adjustment (FVA) (GAAP)	25,545	41,265	36,622	33,058
Purchased Loans plus FVA (non-GAAP)	\$ 732,461	\$ 1,410,329	\$ 1,271,238	\$ 1,155,121
Allowance as a Percentage of Non-Purchased Loans (non-GAAP)	1.19%	1.16%	1.11%	1.33%
FVA as a Percentage of Purchased Loans plus FVA (non-GAAP)	3.49%	2.93%	2.88%	2.86%