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

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2022

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from _______ to _______

FIRST MERCHANTS CORPORATION
(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

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

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

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

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

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

As of May 3, 2022, there were 59,462,227 outstanding common shares of the registrant.

TABLE OF CONTENTS

FIRST MERCHANTS CORPORATION

GLOSSARY OF DEFINED TERMS

FIRST MERCHANTS CORPORATION

2021 CAA	The 2021 Consolidated Appropriations Act, signed into law on December 27, 2020, which included the Economic Aid to Hard-Hit-Small Businesses, Nonprofits, and Venues Act, amending the CARES Act.
ACL	Allowance for Credit Losses
Ameribor	The American interbank offered rate, a potential replacement for LIBOR, is a benchmark interest rate calculated as a volume-weighted average of the daily transactions in overnight unsecured loans on the American Financial Exchange, LLC, a self-regulated electronic exchange for direct lending by American banks and financial institutions.
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
Bank	First Merchants Bank, a wholly-owned subsidiary of the Corporation
CARES Act	Coronavirus Aid, Relief and Economic Security Act
CECL	FASB Accounting Standards Update No. 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, adopted by the Corporation on January 1, 2021.
CET1	Common Equity Tier 1
Corporation	First Merchants Corporation
COVID or COVID-19	2019 novel coronavirus disease, which was declared a pandemic by the World Health Organization on March 11, 2020.
ESPP	Employee Stock Purchase Plan
FASB	Financial Accounting Standards Board
FDIC	Federal Deposit Insurance Corporation
Federal Reserve	Board of Governors of the Federal Reserve System
FHLB	Federal Home Loan Bank
FOMC	Federal Open Market Committee, the monetary policymaking body of the Federal Reserve System.
FTE	Fully taxable equivalent
GAAP	U.S. Generally Accepted Accounting Principles
Hoosier	Hoosier Trust Company, which was acquired by the Bank on April 1, 2021.
IRS	Internal Revenue Service
OREO	Other real estate owned
PPP	Paycheck Protection Program, which was established by the CARES Act and implemented by the Small Business Administration to provide small business loans.
RSA	Restricted Stock Awards
TEFRA	Tax Equity and Fiscal Responsibility Act

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

CONSOLIDATED CONDENSED BALANCE SHEETS

	March 31, 2022	December 31, 2021
	(Unaudited)	
ASSETS		
Cash and due from banks	$ 148,277	$ 167,146
Interest-bearing deposits	395,262	474,154
Investment securities available for sale	2,164,197	2,344,551
Investment securities held to maturity, net of allowance for credit losses of $245 and $245 (fair value of $2,145,994 and $2,202,503)	2,325,066	2,179,802
Loans held for sale	3,938	11,187
Loans	9,356,241	9,241,861
Less: Allowance for credit losses - loans	(195,984)	(195,397)
Net loans	9,160,257	9,046,464
Premises and equipment	105,883	105,655
Federal Home Loan Bank stock	26,422	28,736
Interest receivable	56,081	57,187
Goodwill	545,385	545,385
Other intangibles	24,109	25,475
Cash surrender value of life insurance	291,881	291,041
Other real estate owned	6,271	558
Tax asset, deferred and receivable	73,422	35,641
Other assets	138,807	140,167
TOTAL ASSETS	$ 15,465,258	$ 15,453,149
LIABILITIES		
Deposits:		
Noninterest-bearing	$ 2,745,235	$ 2,709,646
Interest-bearing	10,160,718	10,022,931
Total Deposits	12,905,953	12,732,577
Borrowings:		
Securities sold under repurchase agreements	169,697	181,577
Federal Home Loan Bank advances	308,960	334,055
Subordinated debentures and other borrowings	118,677	118,618
Total Borrowings	597,334	634,250
Interest payable	3,589	2,762
Other liabilities	150,749	170,989
Total Liabilities	13,657,625	13,540,578
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 - 53,424,823 and 53,410,411 shares	6,678	6,676
Additional paid-in capital	987,404	985,818
Retained earnings	897,818	864,839
Accumulated other comprehensive income (loss)	(84,392)	55,113
Total Stockholders' Equity	1,807,633	1,912,571
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 15,465,258	$ 15,453,149

See NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS.

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

CONSOLIDATED CONDENSED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended March 31,	
	2022	2021
INTEREST INCOME		
Loans receivable:		
Taxable	$ 79,075	$ 85,105
Tax exempt	5,704	5,339
Investment securities:		
Taxable	8,510	6,695
Tax exempt	15,875	12,385
Deposits with financial institutions	230	114
Federal Home Loan Bank stock	146	178
Total Interest Income	109,540	109,816
INTEREST EXPENSE		
Deposits	4,294	6,200
Federal funds purchased	—	2
Securities sold under repurchase agreements	89	87
Federal Home Loan Bank advances	1,218	1,442
Subordinated debentures and other borrowings	1,659	1,657
Total Interest Expense	7,260	9,388
NET INTEREST INCOME	102,280	100,428
Provision for credit losses - loans	—	—
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	102,280	100,428
OTHER INCOME		
Service charges on deposit accounts	6,419	5,264
Fiduciary and wealth management fees	7,332	6,422
Card payment fees	5,723	4,367
Net gains and fees on sales of loans	2,199	3,986
Derivative hedge fees	918	317
Other customer fees	410	368
Increase in cash surrender value of life insurance	1,176	1,189
Gains on life insurance benefits	520	147
Net realized gains on sales of available for sale securities	566	1,799
Other income	634	232
Total Other Income	25,897	24,091
OTHER EXPENSES		
Salaries and employee benefits	42,519	38,811
Net occupancy	6,187	6,491
Equipment	5,080	5,030
Marketing	736	1,124
Outside data processing fees	4,363	4,244
Printing and office supplies	345	283
Intangible asset amortization	1,366	1,357
FDIC assessments	2,192	1,368
Other real estate owned and foreclosure expenses	564	734
Professional and other outside services	2,953	2,543
Other expenses	6,020	4,113
Total Other Expenses	72,325	66,098
INCOME BEFORE INCOME TAX	55,852	58,421
Income tax expense	7,266	8,952
NET INCOME AVAILABLE TO COMMON STOCKHOLDERS	$ 48,586	$ 49,469
Per Share Data:		
Basic Net Income Available to Common Stockholders	$ 0.91	$ 0.92
Diluted Net Income Available to Common Stockholders	$ 0.91	$ 0.91
Cash Dividends Paid	$ 0.29	$ 0.26
Average Diluted Shares Outstanding (in thousands)	53,616	54,134

See NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS.

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

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

	Three Months Ended March 31,	
	2022	2021
Net income	$ 48,586	$ 49,469
Other comprehensive loss:		
Unrealized gains/losses on securities available-for-sale:		
Unrealized holding loss arising during the period	(176,567)	(47,911)
Reclassification adjustment for gains included in net income	(566)	(1,799)
Tax effect	37,199	10,439
Net of tax	(139,934)	(39,271)
Unrealized gain/loss on cash flow hedges:		
Unrealized holding gain arising during the period	303	58
Reclassification adjustment for gains included in net income	241	252
Tax effect	(115)	(65)
Net of tax	429	245
Total other comprehensive loss, net of tax	(139,505)	(39,026)
Comprehensive income (loss)	$ (90,919)	$ 10,443

See NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS.

Table of Contents

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

CONSOLIDATED CONDENSED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)

	Three Months Ended March 31, 2022							
	Preferred		Common Stock		Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount	Shares	Amount				
Balances, December 31, 2021	125	$ 125	53,410,411	$ 6,676	$ 985,818	$ 864,839	$ 55,113	$ 1,912,571
Comprehensive loss:								
Net income	—	—	—	—	—	48,586	—	48,586
Other comprehensive loss, net of tax	—	—	—	—	—	—	(139,505)	(139,505)
Cash dividends on common stock ($.29 per share)	—	—	—	—	—	(15,607)	—	(15,607)
Share-based compensation	—	—	1,200	—	1,100	—	—	1,100
Stock issued under dividend reinvestment and stock purchase plan	—	—	10,639	2	469	—	—	471
Stock options exercised	—	—	3,000	—	37	—	—	37
Restricted shares withheld for taxes	—	—	(427)	—	(20)	—	—	(20)
Balances, March 31, 2022	125	$ 125	53,424,823	$ 6,678	$ 987,404	$ 897,818	$ (84,392)	$ 1,807,633

	Three Months Ended March 31, 2021							
	Preferred		Common Stock		Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
	Shares	Amount	Shares	Amount				
Balances, December 31, 2020	125	$ 125	53,922,359	$ 6,740	$ 1,005,366	$ 788,578	$ 74,836	$ 1,875,645
Cumulative effect of ASC 326 adoption						(68,040)		(68,040)
Balances, January 1, 2021	125	$ 125	53,922,359	$ 6,740	$ 1,005,366	$ 720,538	$ 74,836	$ 1,807,605
Comprehensive income:								
Net income	—	—	—	—	—	49,469	—	49,469
Other comprehensive loss, net of tax	—	—	—	—	—	—	(39,026)	(39,026)
Cash dividends on common stock ($.26 per share)	—	—	—	—	—	(14,130)	—	(14,130)
Share-based compensation	—	—	4,285	1	1,189	—	—	1,190
Stock issued under employee benefit plans	—	—	3,929	—	144	—	—	144
Stock issued under dividend reinvestment and stock purchase plan	—	—	9,117	1	442	—	—	443
Stock options exercised	—	—	14,300	2	169	—	—	171
Restricted shares withheld for taxes	—	—	(267)	—	(10)	—	—	(10)
Balances, March 31, 2021	125	$ 125	53,953,723	$ 6,744	$ 1,007,300	$ 755,877	$ 35,810	$ 1,805,856

See NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS.

Table of Contents

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

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (Unaudited)

	Three Months Ended March 31	
	2022	2021
Cash Flow From Operating Activities:		
Net income	$ 48,586	$ 49,469
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,668	2,748
Change in deferred taxes	(1,665)	(3,079)
Share-based compensation	1,100	1,190
Loans originated for sale	(63,805)	(111,558)
Proceeds from sales of loans held for sale	72,456	114,383
Gains on sales of loans held for sale	(1,402)	(3,289)
Gains on sales of securities available for sale	(566)	(1,799)
Increase in cash surrender of life insurance	(1,176)	(1,189)
Gains on life insurance benefits	(520)	(147)
Change in interest receivable	1,106	(714)
Change in interest payable	827	733
Other adjustments	(7,388)	6,062
Net cash provided by operating activities	50,221	52,810
Cash Flows from Investing Activities:		
Net change in interest-bearing deposits	78,892	(501)
Purchases of:		
Securities available for sale	(62,164)	(597,901)
Securities held to maturity	(206,523)	(135,098)
Proceeds from sales of securities available for sale	35,029	48,016
Proceeds from maturities of:		
Securities available for sale	37,442	80,114
Securities held to maturity	42,834	66,361
Change in Federal Home Loan Bank stock	2,314	—
Net change in loans	(116,409)	(72,704)
Proceeds from the sale of other real estate owned	174	495
Proceeds from life insurance benefits	856	315
Other adjustments	(2,896)	(2,285)
Net cash used in investing activities	(190,451)	(613,188)
Cash Flows from Financing Activities:		
Net change in :		
Demand and savings deposits	211,458	620,609
Certificates of deposit and other time deposits	(38,082)	(30,439)
Borrowings	59	8,678
Repayment of borrowings	(36,975)	(30,093)
Cash dividends on common stock	(15,607)	(14,130)
Stock issued under employee benefit plans	—	144
Stock issued under dividend reinvestment and stock purchase plans	471	443
Stock options exercised	37	171
Net cash provided by financing activities	121,361	555,383
Net Change in Cash and Cash Equivalents	(18,869)	(4,995)
Cash and Cash Equivalents, January 1	167,146	192,896
Cash and Cash Equivalents, March 31	$ 148,277	$ 187,901
Additional cash flow information:		
Interest paid	$ 6,433	$ 8,655
Income tax paid	7,750	—
Loans transferred to other real estate owned	5,868	44
Fixed assets transferred to other real estate owned	—	1,167
Non-cash investing activities using trade date accounting	5,246	66,558
ROU assets obtained in exchange for new operating lease liabilities	53	386

See NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS.

PART I. FINANCIAL INFORMATION
ITEM 1. NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(table dollar amounts in thousands, except share data)
(Unaudited)

NOTE 1
GENERAL
Financial Statement Preparation

The Consolidated Condensed Balance Sheet of the Corporation as of December 31, 2021, has been derived from the audited consolidated balance sheet of the Corporation as of that date. Certain information and note disclosures normally included in the Corporation's annual financial statements, prepared in accordance with accounting principles generally accepted in the United States of America, have been condensed or omitted. These consolidated condensed financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2021 filed with the Securities and Exchange Commission. The results of operations for the three months ended March 31, 2022, are not necessarily indicative of the results to be expected for the year. Reclassifications have been made to prior financial statements to conform to the current financial statement presentation. These reclassifications had no effect on net income. Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for credit losses and fair value of financial instruments.

Significant Accounting Policies

The significant accounting policies followed by the Corporation and its wholly-owned subsidiaries for interim financial reporting are consistent with the accounting policies followed for annual financial reporting. All adjustments, which are of a normal recurring nature and are in the opinion of management necessary for a fair statement of the results for the periods reported, have been included in the accompanying Consolidated Condensed Financial Statements.

The Corporation did not adopt any new accounting pronouncements in the first quarter of 2022. The Corporation continually monitors potential accounting pronouncements and the following pronouncements have been deemed to have the most applicability to the Corporation's financial statements:

New Accounting Pronouncements Not Yet Adopted

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

Entities may apply this ASU as of the beginning of an interim period that includes the March 12, 2020 issuance date of the ASU, through December 31, 2022. The Corporation expects to adopt the practical expedients included in the ASU prior to December 31, 2022. The Corporation is implementing a transition plan to identify and modify its loans and other financial instruments with attributes that are either directly or indirectly influenced by LIBOR. The Corporation is assessing ASU 2020-04 and its impact on the Corporation's transition away from LIBOR for its loans and other financial instruments.

FASB Accounting Standards Updates - No. 2021-01 - *Reference Rate Reform (Topic 848): Scope*
Summary - The FASB has published ASU 2021-01, Reference Rate Reform. ASU 2021-01 clarifies that certain optional expedients and exceptions in Topic 848 for contract modifications and hedge accounting apply to derivatives that are affected by the discounting transition. The ASU also amends the expedients and exceptions in Topic 848 to capture the incremental consequences of the scope clarification and to tailor the existing guidance to derivative instruments affected by the discounting transition.

An entity may elect to apply the amendments in this Update on a full retrospective basis as of any date from the beginning of an interim period that includes or is subsequent to March 12, 2020, or on a prospective basis to new modifications from any date within an interim period that includes or is subsequent to the date of the issuance of a final Update, up to the date that financial statements are available to be issued.

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

The amendments in this Update do not apply to contract modifications made after December 31, 2022, new hedging relationships entered into after December 31, 2022, and existing hedging relationships evaluated for effectiveness in periods after December 31, 2022, except for hedging relationships existing as of December 31, 2022, that apply certain optional expedients in which the accounting effects are recorded through the end of the hedging relationship (including periods after December 31, 2022). The Corporation is assessing ASU 2021-01 and its impact on the Corporation's transition away from LIBOR for its loans and other financial instruments.

(table dollar amounts in thousands, except share data)

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

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

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

For public business entities, the amendments are effective for fiscal years beginning after December 31, 2022, including interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 31, 2023, including interim periods within those fiscal years. The amendments in this Update should be applied prospectively to business combinations occurring on or after the effective date of the amendments. Early adoption of the amendments is permitted, including adoption in an interim period. An entity that early adopts in an interim period should apply the amendments (1) retrospectively to all business combinations for which the acquisition date occurs on or after the beginning of the fiscal year that includes the interim period or early application, and (2) prospectively to all business combinations that occur on or after the date of initial application. The Corporation is reviewing the terms of this guidance, but adoption of the standard is not expected to have a significant impact on the Corporation's financial statements or disclosures.

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

The amendments in the new ASU eliminate the accounting guidance for TDRs by creditors that have adopted CECL while enhancing disclosure requirements for certain loan refinancings and restructurings by creditors made to borrowers experiencing financial difficulty. The amendments also require that a public business entity disclose current-period gross writeoffs by year of origination for financing receivables and net investment in leases.

Since the Corporation adopted CECL on January 1, 2021, the amendments in ASU 2022-02 are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. The Corporation is assessing ASU 2022-02 and its impact on the Corporation's disclosures. The Corporation expects to adopt this ASU in the first quarter of 2023.

NOTE 2
ACQUISITIONS

Hoosier Trust Company

On April 1, 2021, the Bank acquired 100 percent of Hoosier Trust Company ("Hoosier") through a merger of Hoosier with and into the Bank. The consideration paid to shareholders of Hoosier at closing was $3,225,000 in cash. Prior to the acquisition, Hoosier was an Indiana corporate trust company, headquartered in Indianapolis, Indiana, with approximately $290 million in assets under management. Hoosier's sole office is now being operated by the Bank as a limited service trust office.

Under the acquisition method of accounting, the total purchase price is allocated to net tangible and intangible assets based on their current estimated fair value on the date of the acquisition. Based on 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 Hoosier acquisition is detailed in the following table.

	Fair Value
Cash and cash equivalents	$ 292
Other assets	35
Other liabilities	(816)
Net tangible assets acquired	(489)
Customer relationship intangible	2,247
Goodwill	1,467
Purchase price	$ 3,225

(table dollar amounts in thousands, except share data)

Of the total purchase price, $2,247,000 was allocated to a customer relationship intangible, which will be amortized over its estimated life of 10 years. The remaining purchase price was allocated to goodwill, which is deductible for tax purposes. Pro forma financial information of the Hoosier acquisition is not included in these disclosures as it is deemed immaterial.

Level One Bancorp, Inc.

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

Level One was headquartered in Farmington Hills, Michigan and had 17 banking centers serving the Michigan market. Pursuant to the merger agreement, each common shareholder of Level One received, for each outstanding share of Level One common stock, (a) a 0.7167 share (the "Exchange Ratio") of the Corporation's common stock, in a tax-free exchange, and (b) a cash payment of $10.17. Fractional shares of the Corporation's common stock were not issued in respect of fractional interests arising from the Exchange Ratio but were paid in cash pursuant to the merger agreement. The Corporation issued 5.6 million shares of the Corporation's common stock and paid $79.3 million in cash in exchange for all outstanding shares of Level One common stock.

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

The combined Corporation has 126 banking centers in Indiana, Illinois, Michigan and Ohio. As of March 31, 2022, Level One had total assets of $2.4 billion, total loans of $1.7 billion and deposits of $1.9 billion. Certain fair value measurements and the purchase price allocation have not been completed due to the timing of the acquisition and the number of assets acquired and liabilities assumed. Review of the estimated fair values of loans, investments, property and equipment, intangible assets, other assets, deposits, borrowings and other liabilities, and the evaluation of the assumed tax positions will occur during the measurement period.

NOTE 3

INVESTMENT SECURITIES

The following table summarizes the amortized cost, gross unrealized gains and losses and approximate fair value of investment securities available for sale as of March 31, 2022 and December 31, 2021.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale at March 31, 2022				
U.S. Treasury	$ 1,964	$ —	$ 5	$ 1,959
U.S. Government-sponsored agency securities	85,494	7	6,403	79,098
State and municipal	1,543,969	17,890	65,326	1,496,533
U.S. Government-sponsored mortgage-backed securities	629,999	305	47,780	582,524
Corporate obligations	4,031	76	24	4,083
Total available for sale	$ 2,265,457	$ 18,278	$ 119,538	$ 2,164,197

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale at December 31, 2021				
U.S. Treasury	$ 1,000	$ —	$ 1	$ 999
U.S. Government-sponsored agency securities	96,244	437	1,545	95,136
State and municipal	1,495,696	81,734	898	1,576,532
U.S. Government-sponsored mortgage-backed securities	671,684	7,109	11,188	667,605
Corporate obligations	4,031	256	8	4,279
Total available for sale	$ 2,268,655	$ 89,536	$ 13,640	$ 2,344,551

(table dollar amounts in thousands, except share data)

The following table summarizes the amortized cost, gross unrealized gains and losses, approximate fair value and allowance for credit losses on investment securities held to maturity as of March 31, 2022 and December 31, 2021.

	Amortized Cost	Allowance for Credit Losses	Net Carrying Amount	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held to maturity at March 31, 2022						
U.S. Government-sponsored agency securities	$ 400,126	$ —	$ 400,126	$ —	$ 29,998	$ 370,128
State and municipal	1,082,257	245	1,082,012	5,718	105,731	982,244
U.S. Government-sponsored mortgage-backed securities	841,428	—	841,428	979	50,285	792,122
Foreign investment	1,500	—	1,500	—	—	1,500
Total held to maturity	$ 2,325,311	$ 245	$ 2,325,066	$ 6,697	$ 186,014	$ 2,145,994

	Amortized Cost	Allowance for Credit Losses	Net Carrying Amount	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held to maturity at December 31, 2021						
U.S. Government-sponsored agency securities	$ 371,457	$ —	$ 371,457	$ 226	$ 7,268	$ 364,415
State and municipal	1,057,301	245	1,057,056	29,593	2,170	1,084,724
U.S. Government-sponsored mortgage-backed securities	749,789	—	749,789	7,957	5,881	751,865
Foreign investment	1,500	—	1,500	—	1	1,499
Total held to maturity	$ 2,180,047	$ 245	$ 2,179,802	$ 37,776	$ 15,320	$ 2,202,503

Accrued interest on investment securities available for sale and held to maturity at March 31, 2022 and December 31, 2021 of $26.0 million and $26.8 million, respectively, are included in the Interest Receivable line on the Corporation's Consolidated Condensed Balance Sheets. The total amount of accrued interest is excluded from the amortized cost of available for sale and held to maturity securities presented above.

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

The allowance for credit losses on investment securities held to maturity is a contra asset-valuation account that is deducted from the amortized cost basis of investment securities held to maturity to present the net amount expected to be collected. Investment securities held to maturity are charged off against the allowance when deemed uncollectible. Adjustments to the allowance are reported in the income statement as a component of the provision for credit loss. The Corporation measures expected credit losses on investment securities held to maturity on a collective basis by major security type with each type sharing similar risk characteristics, and considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts. The Corporation has made the accounting policy election to exclude accrued interest receivable on investment securities held to maturity from the estimate of credit losses. With regard to U.S. Government-sponsored agency and mortgage-backed securities, all these securities are issued by a U.S. government-sponsored entity and have an implicit or explicit government guarantee; therefore, no allowance for credit losses has been recorded for these securities. With regard to securities issued by states and municipalities and other investment securities held to maturity, management considers (1) issuer bond ratings, (2) historical loss rates for given bond ratings, (3) the financial condition of the issuer, and (4) whether issuers continue to make timely principal and interest payments under the contractual terms of the securities. Historical loss rates associated with securities having similar grades as those in the Corporation's portfolio have been insignificant. Furthermore, as of March 31, 2022, there were no past due principal and interest payments associated with these securities. At CECL adoption, an allowance for credit losses of $245,000 was recorded on the state and municipal securities classified as held to maturity based on applying the long-term historical credit loss rate, as published by Moody's, for similarly rated securities. The balance of the allowance for credit losses remained unchanged at $245,000 as of March 31, 2022.

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

On a quarterly basis, the Corporation monitors the credit quality of investment securities held to maturity through the use of credit ratings. The following table summarizes the amortized cost of investment securities held to maturity at March 31, 2022, aggregated by credit quality indicator.

	Held to Maturity		
	State and municipal	Other	Total
Credit Rating:			
Aaa	$ 96,155	$ 60,580	$ 156,735
Aa1	152,330	—	152,330
Aa2	174,021	—	174,021
Aa3	130,579	—	130,579
A1	105,264	—	105,264
A2	30,114	—	30,114
A3	10,110	—	10,110
Non-rated	383,684	1,182,474	1,566,158
Total	$ 1,082,257	$ 1,243,054	$ 2,325,311

The following tables summarize, as of March 31, 2022 and December 31, 2021, investment securities available for sale in an unrealized loss position for which an allowance for credit losses has not been recorded, aggregated by security type and length of time in a continuous unrealized loss position.

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Investment securities available for sale at March 31, 2022						
U.S. Treasury	$ 1,959	$ 5	$ —	$ —	$ 1,959	$ 5
U.S. Government-sponsored agency securities	54,473	3,775	23,869	2,628	78,342	6,403
State and municipal	887,898	62,732	16,888	2,594	904,786	65,326
U.S. Government-sponsored mortgage-backed securities	284,223	16,380	265,203	31,400	549,426	47,780
Corporate obligations	976	24	—	—	976	24
Total investment securities available for sale	$ 1,229,529	$ 82,916	$ 305,960	$ 36,622	$ 1,535,489	$ 119,538

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Investment securities available for sale at December 31, 2021						
U.S. Treasury	$ 999	$ 1	$ —	$ —	$ 999	$ 1
U.S. Government-sponsored agency securities	68,524	1,545	—	—	68,524	1,545
State and municipal	138,187	894	505	4	138,692	898
U.S. Government-sponsored mortgage-backed securities	427,687	10,791	8,324	397	436,011	11,188
Corporate obligations	992	8	—	—	992	8
Total investment securities available for sale	$ 636,389	$ 13,239	$ 8,829	$ 401	$ 645,218	$ 13,640

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

	Gross Unrealized Losses	Number of Securities
Investment securities available for sale at March 31, 2022		
U.S. Treasury	$ 5	2
U.S. Government-sponsored agency securities	6,403	13
State and municipal	65,326	585
U.S. Government-sponsored mortgage-backed securities	47,780	120
Corporate obligations	24	1
Total investment securities available for sale	$ 119,538	721

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

	Gross Unrealized Losses	Number of Securities
Investment securities available for sale at December 31, 2021		
U.S. Treasury	$ 1	1
U.S. Government-sponsored agency securities	1,545	8
State and municipal	898	103
U.S. Government-sponsored mortgage-backed securities	11,188	48
Corporate obligations	8	1
Total investment securities available for sale	$ 13,640	161

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

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

	March 31, 2022	December 31, 2021
Investments available for sale reported at less than historical cost:		
Historical cost	$ 1,655,027	$ 658,858
Fair value	1,535,489	645,218
Gross unrealized losses	$ 119,538	$ 13,640
Percent of the Corporation's investments available for sale	71.0 %	27.5 %

In determining the fair value of the investment securities portfolio, the Corporation utilizes a third party for portfolio accounting services, including market value input, for those securities classified as Level 1 and Level 2 in the fair value hierarchy. The Corporation has obtained an understanding of what inputs are being used by the vendor in pricing the portfolio and how the vendor classified these securities based upon these inputs. From these discussions, the Corporation's management is comfortable that the classifications are proper. The Corporation has gained trust in the data for two reasons: (a) independent spot testing of the data is conducted by the Corporation through obtaining market quotes from various brokers on a periodic basis; and (b) actual gains or 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.

The amortized cost and fair value of investment securities available for sale and held to maturity at March 31, 2022 and December 31, 2021, by contractual maturity are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity are shown separately.

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Maturity Distribution at March 31, 2022				
Due in one year or less	$ 6,240	$ 6,189	$ 7,718	$ 7,737
Due after one through five years	6,106	6,128	30,156	30,777
Due after five through ten years	135,605	135,384	179,256	173,697
Due after ten years	1,487,507	1,433,972	1,266,753	1,141,661
	1,635,458	1,581,673	1,483,883	1,353,872
U.S. Government-sponsored mortgage-backed securities	629,999	582,524	841,428	792,122
Total investment securities	$ 2,265,457	$ 2,164,197	$ 2,325,311	$ 2,145,994

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Maturity Distribution at December 31, 2021				
Due in one year or less	$ 6,954	$ 6,965	$ 6,971	$ 6,995
Due after one through five years	5,097	5,309	30,272	31,946
Due after five through ten years	120,460	126,816	177,203	180,129
Due after ten years	1,464,460	1,537,856	1,215,812	1,231,568
	1,596,971	1,676,946	1,430,258	1,450,638
U.S. Government-sponsored mortgage-backed securities	671,684	667,605	749,789	751,865
Total investment securities	$ 2,268,655	$ 2,344,551	$ 2,180,047	$ 2,202,503

(table dollar amounts in thousands, except share data)

Securities with a carrying value of approximately $831.8 million and $873.2 million were pledged at March 31, 2022 and December 31, 2021, 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 $174.5 million at March 31, 2022 and $175.1 million at December 31, 2021.

Gross gains and losses on the sales and redemptions of investment securities available for sale for the three months ended March 31, 2022 and 2021 are shown below.

	Three Months Ended March 31, 2022	Three Months Ended March 31, 2021
Sales and redemptions of investment securities available for sale:		
Gross gains	$ 578	$ 2,076
Gross losses	12	277
Net gains on sales and redemptions of investment securities available for sale	$ 566	$ 1,799

NOTE 4

LOANS AND ALLOWANCE

Loan Portfolio and Credit Quality

The Corporation's primary lending focus is small business and middle market commercial, commercial real estate, public finance and residential real estate, which results in portfolio diversification. The following tables show the composition of the loan portfolio and credit quality characteristics by collateral classification, excluding loans held for sale. Loans held for sale at March 31, 2022 and December 31, 2021, were $3.9 million and $11.2 million, respectively.

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

	March 31, 2022	December 31, 2021
Commercial and industrial loans	$ 2,826,660	$ 2,714,565
Agricultural land, production and other loans to farmers	209,077	246,442
Real estate loans:		
Construction	552,975	523,066
Commercial real estate, non-owner occupied	2,073,197	2,135,459
Commercial real estate, owner occupied	974,521	986,720
Residential	1,226,695	1,159,127
Home equity	512,641	523,754
Individuals' loans for household and other personal expenditures	147,593	146,092
Public finance and other commercial loans	832,882	806,636
Loans	$ 9,356,241	$ 9,241,861

As of March 31, 2022, the Corporation had $48.7 million of Paycheck Protection Program ("PPP") loans compared to the December 31, 2021 balance of $106.6 million. PPP loans are included in the commercial and industrial loan class. Additional details of the PPP are included in The CARES Act and the Paycheck Protection Program sections of the "COVID-19 UPDATE AND RELATED LEGISLATIVE AND REGULATORY ACTIONS" in the Management's Discussion and Analysis of Financial Condition and Results of Operations included in this Form 10-Q.

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

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

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

- Pass - Loans that are considered to be of acceptable credit quality.

- Special Mention - Loans which possess some credit deficiency or potential weakness, which deserves close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the Corporation's credit position at some future date. Special mention assets are not adversely classified and do not expose the Corporation to sufficient risk to warrant adverse classification.

- Substandard - A substandard loan is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified have a well-defined weakness that jeopardizes the liquidation of the debt. They are characterized by the distinct possibility that the Corporation will sustain some loss if the deficiencies are not corrected.

- Doubtful - Loans that have all of the weaknesses of those classified as Substandard. However, based on currently existing facts, conditions and values, these weaknesses make full collection of principal highly questionable and improbable.

- Loss – Loans that are considered uncollectible and of such little value that continuing to carry them as an asset is not warranted. Loans will be classified as Loss when it is neither practical or desirable to defer writing off or reserving all or a portion of a basically worthless asset, even though partial recovery may be possible at some time in the future.

PART I. FINANCIAL INFORMATION
ITEM 1. NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(table dollar amounts in thousands, except share data)

(Unaudited)

The following tables summarize the risk grading of the Corporation’s loan portfolio by loan class and by year of origination for the years indicated. Consumer loans are not risk graded. For the purposes of this disclosure, the consumer loans are classified in the following manner: loans that are less than 30 days past due are Pass, loans 30-89 days past due are Special Mention and loans greater than 89 days past due are Substandard. The entire balance of a loan is considered delinquent if the minimum payment contractually required to be made is not received by the specified due date. Loans that evidenced deterioration of credit quality since origination and it was probable, at acquisition, that all contractually required payments would not be collected are included in the applicable categories below. Commercial and industrial loan balances as of March 31, 2022 include PPP loans with an origination year of 2021 and 2020 of $48.5 million and $155,000, respectively. Commercial and industrial loan balances as of December 31, 2021 include PPP loans with an origination year of 2021 and 2020 of $100.3 million and $6.3 million, respectively.

	March 31, 2022								
	Term Loans (amortized cost basis by origination year)						Revolving loans amortized	Revolving loans converted	
	2022	2021	2020	2019	2018	Prior	cost basis	to term	Total
Commercial and industrial loans									
Pass	$ 233,494	$ 860,644	$ 292,449	$ 127,655	$ 64,212	$ 48,840	$ 1,124,742	$ —	$ 2,752,036
Special Mention	83	13,199	8,914	196	911	1,967	21,206	—	46,476
Substandard	68	2,665	1,883	1,664	79	1,111	20,112	—	27,582
Doubtful	—	566	—	—	—	—	—	—	566
Total Commercial and industrial loans	233,645	877,074	303,246	129,515	65,202	51,918	1,166,060	—	2,826,660
Agricultural land, production and other loans to farmers									
Pass	13,604	45,415	44,372	20,250	7,270	37,478	38,054	—	206,443
Special Mention	—	—	1,543	—	—	248	89	—	1,880
Substandard	—	—	502	44	181	27	—	—	754
Total Agricultural land, production and other loans to farmers	13,604	45,415	46,417	20,294	7,451	37,753	38,143	—	209,077
Real estate loans:									
Construction									
Pass	93,208	234,844	169,386	25,825	958	4,681	18,879	—	547,781
Special Mention	4,398	—	—	—	—	—	—	—	4,398
Substandard	15	—	758	—	—	23	—	—	796
Total Construction	97,621	234,844	170,144	25,825	958	4,704	18,879	—	552,975
Commercial real estate, non-owner occupied									
Pass	123,966	528,861	627,820	177,465	109,147	186,777	30,535	—	1,784,571
Special Mention	35,142	75,275	144,704	—	—	1,696	—	—	256,817
Substandard	—	23,502	6,819	112	1,106	270	—	—	31,809
Total Commercial real estate, non-owner occupied	159,108	627,638	779,343	177,577	110,253	188,743	30,535	—	2,073,197
Commercial real estate, owner occupied									
Pass	60,735	288,076	353,021	83,799	42,142	78,463	36,565	—	942,801
Special Mention	229	5,575	7,858	798	1,518	1,965	—	—	17,943
Substandard	3,143	4,221	5,384	—	—	1,029	—	—	13,777
Total Commercial real estate, owner occupied	64,107	297,872	366,263	84,597	43,660	81,457	36,565	—	974,521
Residential									
Pass	129,643	344,654	331,532	95,511	64,998	244,562	3,158	13	1,214,071
Special Mention	27	1,140	741	695	572	1,601	—	15	4,791
Substandard	—	1,276	1,541	316	1,324	3,371	5	—	7,833
Total Residential	129,670	347,070	333,814	96,522	66,894	249,534	3,163	28	1,226,695
Home equity									
Pass	4,403	55,867	15,465	1,857	1,884	4,171	423,635	15	507,297
Special Mention	—	—	42	47	27	2	2,863	—	2,981
Substandard	132	345	84	—	8	171	1,623	—	2,363
Total Home Equity	4,535	56,212	15,591	1,904	1,919	4,344	428,121	15	512,641
Individuals' loans for household and other personal expenditures									
Pass	19,616	57,759	20,371	9,519	8,947	6,024	24,836	—	147,072
Special Mention	13	176	113	34	83	53	47	—	519
Substandard	—	1	1	—	—	—	—	—	2
Total Individuals' loans for household and other personal expenditures	19,629	57,936	20,485	9,553	9,030	6,077	24,883	—	147,593
Public finance and other commercial loans									
Pass	54,959	222,676	176,446	99,935	38,565	213,118	27,183	—	832,882
Total Public finance and other commercial loans	54,959	222,676	176,446	99,935	38,565	213,118	27,183	—	832,882
Loans	$ 776,878	$ 2,766,737	$ 2,211,749	$ 645,722	$ 343,932	$ 837,648	$ 1,773,532	$ 43	$ 9,356,241

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

	December 31, 2021								
	Term Loans (amortized cost basis by origination year)						Revolving loans amortized	Revolving loans converted	
	2021	2020	2019	2018	2017	Prior	cost basis	to term	Total
Commercial and industrial loans									
Pass	$ 1,019,757	$ 362,372	$ 144,520	$ 65,165	$ 21,575	$ 30,420	$ 990,335	$ —	$ 2,634,144
Special Mention	10,559	11,088	190	730	1,930	1,825	15,026	—	41,348
Substandard	2,811	2,127	7,432	2,932	431	747	22,593	—	39,073
Total Commercial and industrial loans	1,033,127	375,587	152,142	68,827	23,936	32,992	1,027,954	—	2,714,565
Agricultural land, production and other loans to farmers									
Pass	50,251	45,164	22,195	7,689	6,153	36,074	74,871	—	242,397
Special Mention	—	1,543	—	—	—	252	264	—	2,059
Substandard	524	506	108	371	—	27	450	—	1,986
Total Agricultural land, production and other loans to farmers	50,775	47,213	22,303	8,060	6,153	36,353	75,585	—	246,442
Real estate loans:									
Construction									
Pass	215,167	200,169	63,589	979	1,762	2,453	17,201	—	501,320
Special Mention	20,737	270	—	—	—	46	—	—	21,053
Substandard	—	693	—	—	—	—	—	—	693
Total Construction	235,904	201,132	63,589	979	1,762	2,499	17,201	—	523,066
Commercial real estate, non-owner occupied									
Pass	589,296	688,406	227,332	111,971	103,400	126,837	26,779	—	1,874,021
Special Mention	68,279	149,480	—	—	—	1,723	—	—	219,482
Substandard	19,314	14,912	178	1,118	6,156	278	—	—	41,956
Total Commercial real estate, non-owner occupied	676,889	852,798	227,510	113,089	109,556	128,838	26,779	—	2,135,459
Commercial real estate, owner occupied									
Pass	299,186	392,383	92,338	43,252	46,044	48,571	33,998	—	955,772
Special Mention	5,665	5,953	738	1,532	902	1,301	149	—	16,240
Substandard	7,025	5,763	—	53	113	1,754	—	—	14,708
Total Commercial real estate, owner occupied	311,876	404,099	93,076	44,837	47,059	51,626	34,147	—	986,720
Residential									
Pass	349,726	353,691	103,028	69,745	55,240	210,669	2,955	73	1,145,127
Special Mention	1,034	1,394	1,456	306	172	2,106	—	—	6,468
Substandard	1,004	1,575	335	1,248	108	3,257	—	5	7,532
Total Residential	351,764	356,660	104,819	71,299	55,520	216,032	2,955	78	1,159,127
Home equity									
Pass	63,845	17,556	1,977	2,127	1,250	3,432	427,437	194	517,818
Special Mention	—	85	48	—	—	24	3,451	—	3,608
Substandard	520	—	—	8	91	70	1,639	—	2,328
Total Home Equity	64,365	17,641	2,025	2,135	1,341	3,526	432,527	194	523,754
Individuals' loans for household and other personal expenditures									
Pass	67,749	23,452	11,893	11,197	2,008	4,928	24,406	—	145,633
Special Mention	79	85	50	33	20	58	134	—	459
Total Individuals' loans for household and other personal expenditures	67,828	23,537	11,943	11,230	2,028	4,986	24,540	—	146,092
Public finance and other commercial loans									
Pass	231,319	178,316	100,679	39,098	105,964	128,942	22,318	—	806,636
Total Public finance and other commercial loans	231,319	178,316	100,679	39,098	105,964	128,942	22,318	—	806,636
Loans	$ 3,023,847	$ 2,456,983	$ 778,086	$ 359,554	$ 353,319	$ 605,794	$ 1,664,006	$ 272	$ 9,241,861

(table dollar amounts in thousands, except share data)

Total past due loans equaled $51.6 million as of March 31, 2022, a $16.9 million increase from the total of $34.7 million for December 31, 2021. At March 31, 2022, 30-59 Days Past Due loans totaled $28.6 million, an increase of $13.6 million from December 31, 2021. The primary increases were related to two loans, totaling $20.1 million, in commercial and industrial and non-owner-occupied commercial real estate loans that were in the current category at December 31, 2021. One of the loans is within the nursing facility industry and the other in the game manufacturing industry. The tables below show a past due aging of the Corporation's loan portfolio, by loan class, for the years indicated:

	March 31, 2022					
	Current	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total	Loans > 90 Days or More Past Due And Accruing
Commercial and industrial loans	$ 2,807,708	$ 9,181	$ 5,862	$ 3,909	$ 2,826,660	$ 1,424
Agricultural land, production and other loans to farmers	209,050	—	—	27	209,077	—
Real estate loans:						
Construction	552,866	—	109	—	552,975	—
Commercial real estate, non-owner occupied	2,057,043	11,851	—	4,303	2,073,197	—
Commercial real estate, owner occupied	973,075	1,182	27	237	974,521	—
Residential	1,217,155	3,697	713	5,130	1,226,695	132
Home equity	507,837	2,219	999	1,586	512,641	527
Individuals' loans for household and other personal expenditures	147,071	450	70	2	147,593	2
Public finance and other commercial loans	832,882	—	—	—	832,882	—
Loans	$ 9,304,687	$ 28,580	$ 7,780	$ 15,194	$ 9,356,241	$ 2,085

	December 31, 2021					
	Current	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total	Loans > 90 Days or More Past Due And Accruing
Commercial and industrial loans	$ 2,708,539	$ 2,602	$ 2,437	$ 987	$ 2,714,565	$ 675
Agricultural land, production and other loans to farmers	246,380	36	—	26	246,442	—
Real estate loans:						
Construction	522,349	717	—	—	523,066	—
Commercial real estate, non-owner occupied	2,124,853	3,327	—	7,279	2,135,459	—
Commercial real estate, owner occupied	985,785	643	—	292	986,720	—
Residential	1,148,294	3,979	4,255	2,599	1,159,127	—
Home equity	518,643	3,327	281	1,503	523,754	288
Individuals' loans for household and other personal expenditures	145,634	375	83	—	146,092	—
Public finance and other commercial loans	806,636	—	—	—	806,636	—
Loans	$ 9,207,113	$ 15,006	$ 7,056	$ 12,686	$ 9,241,861	$ 963

(table dollar amounts in thousands, except share data)

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. At the time the accrual is discontinued, all unpaid accrued interest is reversed against earnings. Interest income accrued in prior years, if any, is charged to the allowance for credit losses. Payments subsequently received on 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.

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

	March 31, 2022		December 31, 2021	
	Non-Accrual Loans	Non-Accrual Loans with no Allowance for Credit Losses	Non-Accrual Loans	Non-Accrual Loans with no Allowance for Credit Losses
Commercial and industrial loans	$ 8,696	$ —	$ 7,598	$ 263
Agricultural land, production and other loans to farmers	103	—	631	524
Real estate loans:				
Construction	740	—	685	—
Commercial real estate, non-owner occupied	21,427	4,201	23,029	6,133
Commercial real estate, owner occupied	1,689	1,320	411	—
Residential	8,553	2,920	9,153	2,160
Home equity	1,490	—	1,552	—
Individuals' loans for household and other personal expenditures	—	—	3	—
Loans	$ 42,698	$ 8,441	$ 43,062	$ 9,080

There was no interest income recognized on non-accrual loans for the three months ended March 31, 2022 or 2021.

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

The following table presents the amortized cost basis of collateral dependent loans, which are individually evaluated to determine expected credit losses:

	March 31, 2022				
	Commercial Real Estate	Residential Real Estate	Other	Total	Allowance on Collateral Dependent Loans
Commercial and industrial loans	$ —	$ —	$ 8,111	$ 8,111	$ 2,513
Real estate loans:					
Construction	—	645	—	645	32
Commercial real estate, non-owner occupied	21,919	—	—	21,919	3,190
Commercial real estate, owner occupied	2,351	—	—	2,351	34
Residential	—	4,836	—	4,836	281
Home equity	—	388	—	388	63
Loans	$ 24,270	$ 5,869	$ 8,111	$ 38,250	$ 6,113

	December 31, 2021				
	Commercial Real Estate	Residential Real Estate	Other	Total	Allowance on Collateral Dependent Loans
Commercial and industrial loans	$ —	$ —	$ 8,075	$ 8,075	$ 2,672
Agricultural land, production and other loans to farmers	524	—	251	775	—
Real estate loans:					
Construction	—	685	—	685	82
Commercial real estate, non-owner occupied	23,652	—	—	23,652	5,510
Commercial real estate, owner occupied	1,044	—	—	1,044	—
Residential	—	4,906	—	4,906	305
Home equity	—	394	—	394	64
Loans	$ 25,220	$ 5,985	$ 8,326	$ 39,531	$ 8,633

(table dollar amounts in thousands, except share data)

In certain loan restructuring situations, the Corporation may grant a concession to a debtor experiencing financial difficulty, resulting in a troubled 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 repaid.

The following tables summarize troubled debt restructures in the Corporation's loan portfolio that occurred during the three months ended March 31, 2022 and 2021.

	Three Months Ended March 31, 2022					
	Pre- Modification Recorded Balance	Term Modification	Rate Modification	Combination	Post - Modification Recorded Balance	Number of Loans
Real estate loans:						
Residential	$ 53	$ —	$ 56	$ —	$ 56	1
Total	$ 53	$ —	$ 56	$ —	$ 56	1

	Three Months Ended March 31, 2021					
	Pre- Modification Recorded Balance	Term Modification	Rate Modification	Combination	Post - Modification Recorded Balance	Number of Loans
Commercial and industrial loans	$ 348	$ 348	$ —	$ —	$ 348	2
Real estate loans:						
Residential	625	383	126	118	627	7
Total	$ 973	$ 731	$ 126	$ 118	$ 975	9

Loans secured by residential real estate made up 100 percent of the post-modification balances of the troubled debt restructured loans that occurred during the three months ending March 31, 2022 and 64 percent for the three months ending March 31, 2021.

The following tables summarize troubled debt restructures that occurred during the twelve months ended March 31, 2022 and 2021, 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.

	Three Months Ended March 31, 2022	
	Number of Loans	Recorded Balance
Real estate loans:		
Commercial real estate, owner occupied	1	$ 27
Total	1	$ 27

	Three Months Ended March 31, 2021	
	Number of Loans	Recorded Balance
Real estate loans:		
Residential	5	$ 197
Home equity	1	91
Individuals' loans for household and other personal expenditures	1	2
Total	7	$ 290

Commercial troubled debt restructured loans risk graded special mention, substandard, doubtful and loss are individually evaluated for apparent loss and may result in a specific reserve allocation in the allowance for credit loss. Commercial troubled debt restructures that aren't individually evaluated for a specific reserve are included in the calculation of allowance for credit losses through the loan segment loss analysis.

For all consumer loan modifications, an evaluation to identify if a troubled debt restructure has occurred is performed prior to making the modification. Any subsequent deterioration is addressed through the charge-off process or through a specific reserve allocation included in the allowance for credit loss. Consumer troubled debt restructures that are not individually evaluated for a specific reserve are included in the calculation of the allowance for credit losses through the loan segment loss analysis. Consumer loans secured by residential real estate properties for which formal foreclosure proceedings are in process totaled $3.9 million and $3.3 million at March 31, 2022 and 2021, respectively.

Allowance for Credit Losses on Loans

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

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

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

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

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

The Corporation qualitatively adjusts model results for risk factors that are not inherently considered in the quantitative modeling process, but are nonetheless relevant in assessing the expected credit losses within the loan portfolio. These adjustments may increase or decrease the estimate of expected credit losses based upon the assessed level of risk for each qualitative factor. The various risks that may be considered in making qualitative adjustments include, among other things, the impact of (i) changes in the nature and volume of the loan portfolio, (ii) changes in the existence, growth and effect of any concentrations in credit, (iii) changes in lending policies and procedures, including changes in underwriting standards and practices for collections, write-offs, and recoveries, (iv) changes in the quality of the credit review function, (v) changes in the experience, ability and depth of lending management and staff, and (vi) other environmental factors such as regulatory, legal and technological considerations, as well as competition.

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

No allowance for credit losses has been recognized for PPP loans as such loans are fully guaranteed by the Small Business Administration ("SBA").

(table dollar amounts in thousands, except share data)

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

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

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

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

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

The following tables summarize changes in the allowance for credit losses by loan segment for the three months ended March 31, 2022 and 2021:

	Three Months Ended March 31, 2022				
	Commercial	Commercial Real Estate	Construction	Consumer & Residential	Total
Allowance for credit losses					
Balances, December 31, 2021	$ 69,935	$ 60,665	$ 20,206	$ 44,591	$ 195,397
Provision for credit losses	7,571	(8,250)	554	125	—
Recoveries on loans	139	707	—	206	1,052
Loans charged off	(8)	(122)	—	(335)	(465)
Balances, March 31, 2022	$ 77,637	$ 53,000	$ 20,760	$ 44,587	$ 195,984

	Three Months Ended March 31, 2021						
	Commercial	Commercial Real Estate	Construction	Consumer	Residential	Consumer & Residential	Total
Allowance for credit losses							
Balances, December 31, 2020	$ 47,115	$ 51,070	$ —	$ 9,648	$ 22,815	$ —	$ 130,648
Credit risk reclassifications	—	(10,284)	10,284	(9,648)	(22,815)	32,463	—
Balances, December 31, 2020 after reclassifications	47,115	40,786	10,284	—	—	32,463	130,648
Impact of adopting ASC 326	20,024	34,925	8,805	—	—	10,301	74,055
Balances, January 1, 2021 Post-ASC 326 adoption	67,139	75,711	19,089	—	—	42,764	204,703
Provision for credit losses	(932)	(1,701)	1,095	—	—	1,538	—
Recoveries on loans	188	164	—	—	—	342	694
Loans charged off	(673)	(3,313)	(2)	—	—	(327)	(4,315)
Balances, March 31, 2021	$ 65,722	$ 70,861	$ 20,182	$ —	$ —	$ 44,317	$ 201,082

(table dollar amounts in thousands, except share data)

Off-Balance Sheet Arrangements, Commitments And Contingencies

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

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

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

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

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

	March 31, 2022	December 31, 2021
Amounts of commitments:		
Loan commitments to extend credit	$ 3,958,844	$ 3,917,215
Standby letters of credit	$ 31,854	$ 34,613

The adoption of the CECL methodology for measuring credit losses on January 1, 2021 resulted in an accrual for off-balance sheet commitments at adoption of $20.5 million. This reserve level remains appropriate and is reported in Other Liabilities as of March 31, 2022 in the Consolidated Condensed Balance Sheets.

The following table details activity in the allowance for credit losses on off-balance sheet commitments:

	Three Months Ended March 31, 2022
Balances, December 31, 2021	$ 20,500
Provision for credit losses	—
Balances, March 31, 2022	$ 20,500

NOTE 5

GOODWILL

Goodwill is recorded on the acquisition date of an entity. The Hoosier acquisition on April, 1, 2021 resulted in $1,467,000 of goodwill. Details regarding the Hoosier acquisition are discussed in NOTE 2. ACQUISITIONS of these Notes to Consolidated Condensed Financial Statements.

	2022	2021
Balance, January 1	$ 545,385	$ 543,918
Goodwill acquired	—	1,467
Balance, March 31	$ 545,385	$ 545,385

(table dollar amounts in thousands, except share data)

NOTE 6

OTHER INTANGIBLES

Core deposit intangibles and other intangibles are recorded on the acquisition date of an entity. The Hoosier acquisition on April 1, 2021 resulted in a customer relationship intangible of $2,247,000. Details regarding the Hoosier acquisition are discussed in NOTE 2. ACQUISITIONS of these Notes to Consolidated Condensed Financial Statements. The carrying basis and accumulated amortization of recognized core deposit intangibles and other intangibles are noted below.

	March 31, 2022	December 31, 2021
Gross carrying amount	$ 104,643	$ 102,396
Other intangibles acquired	—	2,247
Accumulated amortization	(80,534)	(79,168)
Total core deposit and other intangibles	$ 24,109	$ 25,475

The core deposit intangibles and other intangibles are being amortized primarily on an accelerated basis over their estimated useful lives, generally over a period of two years to ten years. Intangible amortization expense for each of the three months ended March 31, 2022 and March 31, 2021 was $1.4 million. Estimated future amortization expense is summarized as follows:

	Amortization Expense
2022	$ 4,036
2023	5,145
2024	4,510
2025	3,754
2026	2,948
After 2026	3,716
	$ 24,109

NOTE 7

DERIVATIVE FINANCIAL INSTRUMENTS

Risk Management Objective of Using Derivatives

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

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 these objectives, the Corporation primarily uses interest rate swaps and interest rate caps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the payment of fixed amounts to a counterparty in exchange for the Corporation receiving variable payments over the life of the agreements without exchange of the underlying notional amount. Interest rate caps designated as cash flow hedges involve the receipt of variable amounts from a counterparty if interest rates rise above the strike rate on the contract in exchange for an up-front premium. As of March 31, 2022 the Corporation had three interest rate swaps with a notional amount of $36.0 million that were designated as cash flow hedges. As of December 31, 2021, the Corporation had four interest rate swaps with a notional amount of $60.0 million that were designated as cash flow hedges. A $24.0 million interest rate swap, which was used to hedge the variable cash outflows (Ameribor-based) associated with a brokered deposit, matured in the first quarter of 2022.

(table dollar amounts in thousands, except share data)

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in accumulated other comprehensive income (loss) and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During 2022, $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, $10.0 million of interest rate swaps were used to hedge the variable cash outflows (LIBOR-based) associated with one Federal Home Loan Bank advance.The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. During the three months ended March 31, 2022 and 2021, the Corporation did not recognize any ineffectiveness.

Amounts reported in accumulated other comprehensive income (loss) related to derivatives will be reclassified to interest expense as interest payments are made on the Corporation's variable-rate liabilities. During the next twelve months, the Corporation expects to reclassify $307,000 from accumulated other comprehensive income (loss) to interest expense.

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. At March 31, 2022 and December 31, 2021, the notional amount of customer-facing swaps was approximately $1.0 billion. These amounts are 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 March 31, 2022, and December 31, 2021.

	Asset Derivatives				Liability Derivatives			
	March 31, 2022		December 31, 2021		March 31, 2022		December 31, 2021	
	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	$ —	Other Liabilities	$ 292	Other Liabilities	$ 835
Derivatives not designated as hedging instruments:								
Interest rate contracts	Other Assets	$ 34,995	Other Assets	$ 41,133	Other Liabilities	$ 34,995	Other Liabilities	$ 41,133

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

	Amount of Gain (Loss) Recognized in Other Comprehensive Income on Derivative (Effective Portion)	
	Three Months Ended	
Derivatives in Cash Flow Hedging Relationships	March 31, 2022	March 31, 2021
Interest Rate Products	$ 303	$ 58

Effect of Derivative Instruments on the Income Statement

The Corporation did not recognize any gains or losses from derivative financial instruments in the Consolidated Condensed Statements of Income for the three months ended March 31, 2022 or 2021.

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

Derivatives Designated as Hedging Instruments under FASB ASC 815-10	Location of Gain (Loss) Recognized Income on Derivative	Amount of Gain (Loss) Reclassed from Other Comprehensive Income into Income (Effective Portion)	
		Three Months Ended March 31, 2022	Three Months Ended March 31, 2021
Interest rate contracts	Interest Expense	$ (241)	$ (252)

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

Credit-risk-related Contingent Features

The Corporation has agreements with certain of its derivative counterparties that contain a provision where if the Corporation fails to maintain its status as a well or adequately capitalized institution, then the Corporation could be required to terminate or fully collateralize all outstanding derivative contracts. Additionally, the Corporation has agreements with certain of its derivative counterparties that contain a provision where if the Corporation defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then the Corporation could also be declared in default on its derivative obligations. As of March 31, 2022, the termination value of derivatives in a net liability position related to these agreements was $20.3 million. As of March 31, 2022, the Corporation has minimum collateral posting thresholds with certain of its derivative counterparties and has posted collateral of $24.8 million. While the Corporation did not breach any of these provisions as of March 31, 2022, if it had, the Corporation could have been required to settle its obligations under the agreements at their termination value.

NOTE 8

DISCLOSURES ABOUT FAIR VALUE OF ASSETS AND LIABILITIES

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.

(table dollar amounts in thousands, except share data)

Investment Securities

Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include U.S. Treasury securities. Where significant observable inputs, other than Level 1 quoted prices, are available, securities are classified within Level 2 of the valuation hierarchy. Level 2 securities include U.S. government-sponsored agency and mortgage-backed securities, state and municipal securities and corporate obligations securities. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy and include state and municipal securities, U.S. government-sponsored agency and 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.

Interest Rate Derivative Agreements

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

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the ASC 820 fair value hierarchy in which the fair value measurements fall at March 31, 2022, and December 31, 2021.

		Fair Value Measurements Using:		
March 31, 2022	**Fair Value**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Available for sale securities:				
U.S. Treasury	$ 1,959	$ 1,959	$ —	$ —
U.S. Government-sponsored agency securities	79,098	—	79,098	—
State and municipal	1,496,533	—	1,487,656	8,877
U.S. Government-sponsored mortgage-backed securities	582,524	—	582,520	4
Corporate obligations	4,083	—	4,052	31
Interest rate swap asset	34,995	—	34,995	—
Interest rate swap liability	35,287	—	35,287	—

		Fair Value Measurements Using:		
December 31, 2021	**Fair Value**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Available for sale securities:				
U.S. Treasury	$ 999	$ 999	$ —	$ —
U.S. Government-sponsored agency securities	95,136	—	95,136	—
State and municipal	1,576,532	—	1,571,076	5,456
U.S. Government-sponsored mortgage-backed securities	667,605	—	667,601	4
Corporate obligations	4,279	—	4,248	31
Interest rate swap asset	41,133	—	41,133	—
Interest rate swap liability	41,968	—	41,968	—

(table dollar amounts in thousands, except share data)

Level 3 Reconciliation

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying balance sheets using significant unobservable Level 3 inputs for the three months ended March 31, 2022 and 2021.

	Available for Sale Securities	
	Three Months Ended	
	March 31, 2022	March 31, 2021
Balance at beginning of the period	$ 5,491	$ 2,479
Included in other comprehensive income	(493)	(60)
Purchases, issuances and settlements	4,100	—
Principal payments	(186)	(273)
Ending balance	$ 8,912	$ 2,146

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 March 31, 2022 or December 31, 2021.

Transfers Between Levels

There were no transfers in or out of Level 3 for the three months ended March 31, 2022 and 2021.

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 at March 31, 2022, and December 31, 2021.

		Fair Value Measurements Using		
March 31, 2022	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Collateral dependent loans	$ 24,657	$ —	$ —	$ 24,657

		Fair Value Measurements Using		
December 31, 2021	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Collateral dependent loans	$ 24,491	$ —	$ —	$ 24,491
Other real estate owned	96	—	—	96

Collateral Dependent Loans and Other Real Estate Owned

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

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

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 March 31, 2022 and December 31, 2021.

March 31, 2022	Fair Value		Valuation Technique	Unobservable Inputs	Range (Weighted-Average)
State and municipal securities	$	8,877	Discounted cash flow	Maturity/Call date	1 month to 15 years
				US Muni BQ curve	A- to BBB--
				Discount rate	0.4% - 4.0%
				Weighted-average coupon	2.2%
Corporate obligations and U.S. Government-sponsored mortgage-backed securities	$	35	Discounted cash flow	Risk free rate	3 month LIBOR
				plus premium for illiquidity	plus 200bps
				Weighted-average coupon	0%
Impaired loans (collateral dependent)	$	24,657	Collateral based measurements	Discount to reflect current market conditions and ultimate collectability	0% - 10%
				Weighted-average discount by loan balance	3.6%

December 31, 2021	Fair Value		Valuation Technique	Unobservable Inputs	Range (Weighted-Average)
State and municipal securities	$	5,456	Discounted cash flow	Maturity/Call date	1 month to 15 years
				US Muni BQ curve	A- to BBB-
				Discount rate	0.75% - 4%
				Weighted-average coupon	3.7%
Corporate obligations and U.S Government-sponsored mortgage-backed securities	$	35	Discounted cash flow	Risk free rate	3 month LIBOR
				plus premium for illiquidity	plus 200bps
				Weighted-average coupon	0%
Impaired loans (collateral dependent)	$	24,491	Collateral based measurements	Discount to reflect current market conditions and ultimate collectability	0% - 10%
				Weighted-average discount by loan balance	5.5%
Other real estate owned	$	96	Appraisals	Discount to reflect current market conditions	0% - 44%
				Weighted-average discount of other real estate owned balance	43.5%

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

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

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

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

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 March 31, 2022, and December 31, 2021.

	March 31, 2022			
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash and cash equivalents	$ 148,277	$ 148,277	$ —	$ —
Interest-bearing deposits	395,262	395,262	—	—
Investment securities available for sale	2,164,197	1,959	2,153,326	8,912
Investment securities held to maturity	2,325,066	—	2,132,711	13,283
Loans held for sale	3,938	—	3,938	—
Loans, net	9,160,257	—	—	8,969,530
Federal Home Loan Bank stock	26,422	—	26,422	—
Interest rate swap asset	34,995	—	34,995	—
Interest receivable	56,081	—	56,081	—
Liabilities:				
Deposits	$ 12,905,953	$ 12,250,450	$ 646,951	$ —
Borrowings:				
Securities sold under repurchase agreements	169,697	—	169,679	—
Federal Home Loan Bank advances	308,960	—	307,288	—
Subordinated debentures and other borrowings	118,677	—	111,691	—
Interest rate swap liability	35,287	—	35,287	—
Interest payable	3,589	—	3,589	—

	December 31, 2021			
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash and cash equivalents	$ 167,146	$ 167,146	$ —	$ —
Interest-bearing deposits	474,154	474,154	—	—
Investment securities available for sale	2,344,551	999	2,338,061	5,491
Investment securities held to maturity	2,179,802	—	2,188,600	13,903
Loans held for sale	11,187	—	11,187	—
Loans, net	9,046,464	—	—	9,068,319
Federal Home Loan Bank stock	28,736	—	28,736	—
Interest rate swap asset	41,133	—	41,133	—
Interest receivable	57,187	—	57,187	—
Liabilities:				
Deposits	$ 12,732,577	$ 12,038,992	$ 690,089	$ —
Borrowings:				
Securities sold under repurchase agreements	181,577	—	181,572	—
Federal Home Loan Bank advances	334,055	—	337,005	—
Subordinated debentures and other borrowings	118,618	—	107,892	—
Interest rate swap liability	41,968	—	41,968	—
Interest payable	2,762	—	2,762	—

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

NOTE 9

TRANSFERS ACCOUNTED FOR AS SECURED BORROWINGS

The collateral pledged for all repurchase agreements that are accounted for as secured borrowings as of March 31, 2022 and December 31, 2021 were:

	March 31, 2022				
	Remaining Contractual Maturity of the Agreements				
	Overnight and Continuous	Up to 30 Days	30-90 Days	Greater Than 90 Days	Total
U.S. Government-sponsored mortgage-backed securities	$ 169,697	$ —	$ —	$ —	$ 169,697

	December 31, 2021				
	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	$ 181,577	$ —	$ —	$ —	$ 181,577

NOTE 10
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 March 31, 2022 and 2021:

	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, 2021	$ 59,774	$ (660)	$ (4,001)	$ 55,113
Other comprehensive income (loss) before reclassifications	(139,487)	239	—	(139,248)
Amounts reclassified from accumulated other comprehensive income	(447)	190	—	(257)
Period change	(139,934)	429	—	(139,505)
Balance at March 31, 2022	$ (80,160)	$ (231)	$ (4,001)	$ (84,392)
Balance at December 31, 2020	$ 87,988	$ (1,594)	$ (11,558)	$ 74,836
Other comprehensive income (loss) before reclassifications	(37,850)	46	—	(37,804)
Amounts reclassified from accumulated other comprehensive income	(1,421)	199	—	(1,222)
Period change	(39,271)	245	—	(39,026)
Balance at March 31, 2021	$ 48,717	$ (1,349)	$ (11,558)	$ 35,810

(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 Condensed Statements of Income for the three months ended March 31, 2022 and 2021.

Details about Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified from Accumulated Other Comprehensive Income (Loss) For the Three Months Ended March 31, 2022	2021	Affected Line Item in the Statements of Income
Unrealized gains (losses) on available for sale securities [1]			
Realized securities gains reclassified into income	$ 566	$ 1,799	Other income - net realized gains on sales of available for sale securities
Related income tax expense	(119)	(378)	Income tax expense
	$ 447	$ 1,421	
Unrealized gains (losses) on cash flow hedges [2]			
Interest rate contracts	$ (241)	$ (252)	Interest expense - subordinated debentures and term loans
Related income tax benefit	51	53	Income tax expense
	$ (190)	$ (199)	
Total reclassifications for the period, net of tax	$ 257	$ 1,222	

[1] For additional detail related to unrealized gains (losses) on available for sale securities and related amounts reclassified from accumulated other comprehensive income see NOTE 3. INVESTMENT SECURITIES of these Notes to Consolidated Condensed Financial Statements.
[2] For additional detail related to unrealized gains (losses) on cash flow hedges and related amounts reclassified from accumulated other comprehensive income see NOTE 7. DERIVATIVE FINANCIAL INSTRUMENTS of these Notes to Consolidated Condensed Financial Statements.

NOTE 11

SHARE-BASED COMPENSATION

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

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

Compensation expense related to unvested share-based awards is recorded by recognizing the unamortized grant date fair value of these awards over the remaining service periods of those awards, with no change in historical reported fair values and earnings. Awards are valued at fair value in accordance with provisions of share-based compensation guidance and are recognized on a straight-line basis over the service periods of each award. To complete the exercise of vested stock options, RSA’s and ESPP options, the Corporation generally issues new shares from its authorized but unissued share pool. Share-based compensation for the three months ended March 31, 2022 was $1.1 million compared to $1.2 million for the three months ended March 31, 2021. Share-based compensation has been recognized as a component of salaries and benefits expense in the accompanying Consolidated Condensed Statements of Income.

Share-based compensation expense recognized in the Consolidated Condensed Statements of Income is based on awards ultimately expected to vest and is reduced for estimated forfeitures. Share-based compensation guidance requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods, if actual forfeitures differ from those estimates. Pre-vesting forfeitures were estimated to be approximately 0.5 percent for the three months ended March 31, 2022, based on historical experience.

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

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

	Three Months Ended March 31,	
	2022	2021
Stock and ESPP Options		
Pre-tax compensation expense	$ 29	$ 75
Income tax expense (benefit)	(17)	(72)
Stock and ESPP option expense, net of income taxes	$ 12	$ 3
Restricted Stock Awards		
Pre-tax compensation expense	$ 1,071	$ 1,115
Income tax expense (benefit)	(226)	(237)
Restricted stock awards expense, net of income taxes	$ 845	$ 878
Total Share-Based Compensation		
Pre-tax compensation expense	$ 1,100	$ 1,190
Income tax expense (benefit)	(243)	(309)
Total share-based compensation expense, net of income taxes	$ 857	$ 881

The grant date fair value of ESPP options was estimated to be approximately $28,000 at the beginning of the January 1, 2022 quarterly offering period. The ESPP options vested during the three months ending March 31, 2022, leaving no unrecognized compensation expense related to unvested ESPP options at March 31, 2022.

Stock option activity under the Corporation's stock option plans as of March 31, 2022 and changes during the three months ended March 31, 2022, were as follows:

	Number of Shares	Weighted-Average Exercise Price	Weighted Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2022	28,500	$ 17.14		
Exercised	(3,000)	$ 12.46		
Outstanding March 31, 2022	25,500	$ 17.69	1.37	$ 609,645
Vested and Expected to Vest at March 31, 2022	25,500	$ 17.69	1.37	$ 609,645
Exercisable at March 31, 2022	25,500	$ 17.69	1.37	$ 609,645

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the Corporation's closing stock price on the last trading day of the first three months of 2022 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 March 31, 2022. 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 three months ended March 31, 2022 and 2021 was $91,000 and $453,000, respectively. Cash receipts of stock options exercised during this same period were $37,000 and $171,000, respectively.

The following table summarizes information on unvested RSAs outstanding as of March 31, 2022:

	Number of Shares	Weighted-Average Grant Date Fair Value
Unvested RSAs at January 1, 2022	411,259	$ 35.86
Granted	5,666	$ 41.77
Vested	(1,200)	$ 38.96
Forfeited	(2,850)	$ 36.78
Unvested RSAs at March 31, 2022	412,875	$ 35.92

As of March 31, 2022, unrecognized compensation expense related to RSAs was $7.5 million and is expected to be recognized over a weighted-average period of 1.68 years. The Corporation did not have any unrecognized compensation expense related to stock options as of March 31, 2022.

(table dollar amounts in thousands, except share data)

NOTE 12

INCOME TAX

The following table summarizes the major components creating differences between income taxes at the federal statutory and the effective tax rate recorded in the consolidated statements of income for the three months ended March 31, 2022 and 2021:

	Three Months Ended March 31, 2022	Three Months Ended March 31, 2021
Reconciliation of Federal Statutory to Actual Tax Expense:		
Federal statutory income tax at 21%	$ 11,729	$ 12,268
Tax-exempt interest income	(4,520)	(3,706)
Share-based compensation	(12)	(59)
Tax-exempt earnings and gains on life insurance	(354)	(281)
Tax credits	(87)	(73)
State Income Tax	495	702
Other	15	101
Actual Tax Expense	$ 7,266	$ 8,952
Effective Tax Rate	13.0 %	15.3 %

NOTE 13
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 three months ended March 31, 2022 and 2021.

	Three Months Ended March 31, 2022			2021		
	Net Income	Weighted-Average Shares	Per Share Amount	Net Income	Weighted-Average Shares	Per Share Amount
Net income available to common stockholders	$ 48,586	53,412,762	$ 0.91	$ 49,469	53,930,200	$ 0.92
Effect of potentially dilutive stock options and restricted stock awards		203,106			203,422	
Diluted net income per share	$ 48,586	53,615,868	$ 0.91	$ 49,469	54,133,622	$ 0.91

For the three months ended March 31, 2022 and 2021, there were no stock options with an option price greater than the average market price of the common shares.

NOTE 14
GENERAL LITIGATION AND REGULATORY EXAMINATIONS

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

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

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

FORWARD-LOOKING STATEMENTS

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

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

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

- our ability to achieve the expected cost savings, synergies and other anticipated benefits from our merger transaction with Level One Bancorp, Inc. (see BUSINESS SUMMARY below for details);
- fluctuations in market rates of interest and loan and deposit pricing, which could negatively affect our net interest margin, asset valuations and expense expectations;
- adverse changes in the economy, which might affect our business prospects and could cause credit-related losses and expenses;
- the severity and duration of the COVID-19 pandemic and its impact on general economic and financial market conditions and our business, results of operations, and financial condition;
- adverse developments in our loan and investment portfolios;
- our participation as a lender in the PPP;
- competitive factors in the banking industry, such as the trend towards consolidation in our market;
- changes in the banking legislation or the regulatory requirements of federal and state agencies applicable to bank holding companies and banks like our affiliate bank;
- acquisitions of other businesses by us and integration of such acquired businesses;
- our ability to implement and comply with the Settlement Agreement and Agreed Order entered into with the United States Department of Justice ("DOJ") related to our fair lending practices;
- changes in market, economic, operational, liquidity, credit and interest rate risks associated with our business; and
- the continued availability of earnings and excess capital sufficient for the lawful and prudent declaration and payment of cash dividends.

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

BUSINESS SUMMARY

First Merchants Corporation (the "Corporation") is a financial holding company headquartered in Muncie, Indiana and was organized in September 1982. The Corporation's common stock is traded on the Nasdaq's Global Select Market System under the symbol FRME. The Corporation conducts its banking operations through First Merchants Bank (the "Bank"), a wholly-owned subsidiary that opened for business in Muncie, Indiana, in March 1893. The Bank also operates First Merchants Private Wealth Advisors (a division of First Merchants Bank). The Bank includes 109 banking locations in Indiana, Ohio, Michigan and Illinois. In addition to its branch network, the Corporation offers comprehensive electronic and mobile delivery channels to its customers. The Corporation's business activities are currently limited to one significant business segment, which is community banking.

On April 1, 2022, the Corporation acquired Level One Bancorp, Inc., a Michigan corporation ("Level One"), through the merger of Level One with and into the Corporation, with the Corporation as the surviving entity (the "Merger"). Immediately following the Merger, Level One's wholly owned subsidiary, Level One Bank, merged with and into the Bank, with the Bank as the surviving bank. Level One was headquartered in Farmington Hills, Michigan and had 17 banking centers serving the Michigan market. As of March 31, 2022, Level One had total assets of $2.4 billion, total loans of $1.7 billion and deposits of $1.9 billion. Following the acquisition, the Corporation has 126 banking centers in the states identified above. For additional information on the Merger, see NOTE 2. ACQUISITIONS – Level One Bancorp, Inc. of the Notes to Consolidated Condensed Financial Statements included in Item 1 of this Quarterly Report on Form 10-Q.

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

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

HIGHLIGHTS FOR THE FIRST QUARTER OF 2022

- Net income available to stockholders for the three months ended March 31, 2022 was $48.6 million compared to $49.5 million for the three months ended March 31, 2021.

- Earnings per fully diluted common share for the first quarter of 2022 totaled $0.91, which was the same amount as the first quarter of 2021.

- Earnings per fully diluted common share for the first quarter of 2022, excluding income on Paycheck Protection Program (“PPP”) loans, totaled $0.88 compared to $0.78 in the first quarter of 2021 and $0.84 in the fourth quarter of 2021. See non-GAAP reconciliation in the "Results of Operations" section of this Management's Discussion and Analysis of Financial Condition and Results of Operations.

- The Corporation experienced organic loan growth of $165.0 million, or 7.2 percent, during the first quarter of 2022, which when offset by a $57.9 million decline in PPP loans (following forgiveness by the Small Business Administration), resulted in net loan growth of $107.1 million.

- As of March 31, 2022, the Corporation had $12.9 billion in total deposits, representing a $173.4 million increase from December 31, 2021, or 5.4 percent on an annualized basis.

- Net interest income for the three months ended March 31, 2022 totaled $102.3 million, an increase of $1.9 million over net interest income for the three months ended March 31, 2021 of $100.4 million.

COVID-19 UPDATE AND RELATED LEGISLATIVE ACTION

The COVID-19 pandemic continued to impact the Corporation’s operations during the three months ended March 31, 2022. In the two years since the World Health Organization declared COVID-19 a global pandemic, it has dramatically impacted global health and the economic environment, including millions of confirmed cases and deaths, business slowdowns or shutdowns, labor shortfalls, supply chain challenges, regulatory challenges, and market volatility. In response, the U.S. Congress, through the enactment of the CARES Act in March 2020, and the federal banking agencies, through rulemaking, interpretive guidance and modifications to agency policies and procedures, have taken a series of actions to provide emergency economic relief measures.

The CARES Act established the PPP, which is administered by the Small Business Administration (“SBA”), to fund payroll and operational costs of eligible businesses, organizations and self-employed persons during the pandemic. The Bank actively participated in assisting its customers with PPP funding during all phases of the program. The vast majority of the Bank’s PPP loans made in 2020 have two-year maturities, while the loans made in 2021 have five-year maturities. Loans under the program earn interest at a fixed rate of 1 percent. As of March 31, 2022, the Corporation had $48.7 million of PPP loans outstanding compared to the December 31, 2021 balance of $106.6 million. The Corporation will continue to monitor legislative, regulatory, and supervisory developments related to the PPP. However, it anticipates that the majority of the Bank’s remaining PPP loans will be forgiven by the SBA in accordance with the terms of the program.

CRITICAL ACCOUNTING POLICIES

Generally accepted accounting principles are complex and require us to apply significant judgments to various accounting, reporting and disclosure matters. We must use assumptions and estimates to apply those principles where actual measurement is not possible or practical. For a complete discussion of our significant accounting policies, see “Notes to the Consolidated Financial Statements” in our Annual Report on Form 10-K for the year ended December 31, 2021. Certain policies are considered critical because they are highly dependent upon subjective or complex judgments, assumptions and estimates. Changes in such estimates may have a significant impact on the financial statements.

We believe there have been no significant changes during the three months ended March 31, 2022 to the items that we disclosed as our critical accounting policies and estimates in Management’s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2021.

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

RESULTS OF OPERATIONS

The Corporation reported first quarter 2022 net income of $48.6 million, compared to $49.5 million during the first quarter of 2021. Diluted earnings per share for the first quarter 2022 totaled $0.91 per share, compared to $0.91 per diluted share during the same period in 2021.

Earnings per fully diluted common share for the first quarter of 2022, excluding income on PPP loans, totaled $0.88 compared to $0.78 in the first quarter of 2021 and $0.84 in the fourth quarter of 2021. See non-GAAP reconciliation at the end of the "Results of Operations" section of this Management's Discussion and Analysis of Financial Condition and Results of Operations.

As of March 31, 2022, total assets equaled $15.5 billion, an increase of $12.1 million from December 31, 2021.

Total investment securities decreased $35.1 million from December 31, 2021. The Corporation purchased investment securities by utilizing excess liquidity from deposit growth and SBA forgiveness of PPP loans. The increase from purchases was offset by a change from a net unrealized gain of $75.9 million at December 31, 2021 to a net unrealized loss of $101.3 million as of March 31, 2022 on the available for sale portfolio. The change to a net unrealized loss position was primarily due to changes in interest rates and not credit quality. Additional details of the changes in the Corporation's investment securities portfolio are discussed within NOTE 3. INVESTMENT SECURITIES of the Notes to Consolidated Condensed Financial Statements of this Quarterly Report on Form 10-Q.

The Corporation's total loan portfolio experienced organic loan growth of $165.0 million, or 7.2% on an annualized basis, and when offset by a decline in PPP loans, resulted in a net increase in total loans of $107.1 million compared to December 31, 2021. As of March 31, 2022, the Corporation's PPP loan portfolio, primarily in the commercial and industrial loans class, totaled $48.7 million, a decrease of $57.9 million from the December 31, 2021 balance of $106.6 million.

The loan classes that experienced the largest increases from December 31, 2021 were commercial and industrial loans, residential real estate and construction real estate. The decline in PPP loans was offset by organic loan growth in the commercial and industrial loan class of $170.0 million, resulting in a net increase of $112.1 million. Loan classes that experienced the largest decreases from December 31, 2021 were commercial real estate (non-owner occupied) and agricultural land, production and other loans to farmers. Additional details of the changes in the Corporation's loans are discussed within NOTE 4. LOANS AND ALLOWANCE of the Notes to Consolidated Condensed Financial Statements of this Quarterly Report on Form 10-Q, and the "LOAN QUALITY AND PROVISION FOR CREDIT LOSSES ON LOANS" section of this Management's Discussion and Analysis of Financial Condition and Results of Operations.

The Corporation’s allowance for credit losses - loans totaled $196.0 million as of March 31, 2022 and equaled 2.09 percent of total loans, compared to $195.4 million and 2.11 percent of total loans at December 31, 2021. The Corporation did not recognize any provision expense during the three months ended March 31, 2022 and 2021. During the three months ended March 31, 2022, the Corporation recognized $587,000 of net recoveries, compared to $3.6 million of net charge-offs in the three months ended March 31, 2021. Non-accrual loans totaled $42.7 million, a decrease of $364,000 from December 31, 2021, resulting in a coverage ratio of 459.0 percent. Additional details of the Corporation's allowance methodology and asset quality are discussed within NOTE 4. LOANS AND ALLOWANCE of the Notes to Consolidated Condensed Financial Statements of this Quarterly Report on Form 10-Q and within the “LOAN QUALITY AND PROVISION FOR CREDIT LOSSES ON LOANS” section of this Management’s Discussion and Analysis of Financial Condition and Results of Operations.

OREO totaled $6.3 million as of March 31, 2022 and increased $5.7 million from the December 31, 2021 balance of $558,000 due to a $5.8 million student housing property that was moved into OREO during the first quarter of 2022. A loss on this project is not expected.

The Corporation's net tax asset, deferred and receivable increased $37.8 million from December 31, 2021. The primary driver was a decrease in unrealized gains on available for sale securities resulting in a $37.2 million increase in the net deferred tax liability.

The Corporation's other assets decreased $1.4 million from December 31, 2021. The Corporation's derivative asset (recorded in other assets) and derivative liability (recorded in other liabilities) related to interest rate contracts decreased $6.1 million and $6.7 million, respectively, from December 31, 2021. The decreases in valuations are due to higher yield curve rates across the entire term point spectrum. The higher interest rates are the result of more directional certainty as to the FOMC’s intentions relative to target fed funds increases which heightens rate expectations across the term spectrum. Offsetting the decrease in the Corporation's derivative asset was an increase of $4.9 million in the Corporation's investments in community redevelopment funds.

As of March 31, 2022, total deposits equaled $12.9 billion, an increase of $173.4 million from December 31, 2021. The Corporation experienced increases from December 31, 2021 in demand and savings accounts of $101.8 million and $109.6 million, respectively. Offsetting these increases were decreases in certificates of deposit and brokered deposits of $30.8 million and $7.3 million, respectively, from December 31, 2021. The low interest rate environment has resulted in customers moving funds from maturing time deposit products into non-maturity products due to similar rates offered for both products.

Total borrowings decreased $36.9 million as of March 31, 2022, compared to December 31, 2021. Federal Home Loan Bank advances decreased $25.1 million compared to December 31, 2021 as the Corporation utilized excess liquidity from deposit growth to pay off maturing advances. Additionally, securities sold under repurchase agreements decreased by $11.9 million.

The Corporation's other liabilities as of March 31, 2022 decreased $20.2 million compared to December 31, 2021. The Corporation accrued $18.6 million of trade date accounting related to investment securities purchases as of March 31, 2022, compared to $27.1 million as of December 31, 2021. Additionally, as noted above, the derivative hedge liability decreased $6.7 million from December 31, 2021.

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

ADJUSTED EPS EXCLUDING PAYCHECK PROTECTION PROGRAM ("PPP") - non-GAAP
(Dollars In Thousands, Except Per Share Amounts)

	March 31, 2022	December 31, 2021	March 31, 2021
Net Income Available to Common Shareholders - GAAP	**$ 48,586**	**$ 47,733**	**$ 49,469**
Adjustments:			
PPP loan income	(1,884)	(3,721)	(9,243)
Tax on adjustment	462	912	2,266
Adjust Net Income Available to Common Stockholders - non-GAAP	$ 47,164	$ 44,924	$ 42,492
Average Diluted Shares Outstanding (in thousands)	53,616	53,660	54,134
Diluted Earnings Per Share - GAAP	**$ 0.91**	**$ 0.89**	**$ 0.91**
Adjustments:			
PPP loan income	(0.04)	(0.07)	(0.17)
Tax on adjustment	0.01	0.02	0.04
Adjusted Diluted Earnings Per Share - non-GAAP	$ 0.88	$ 0.84	$ 0.78

NET INTEREST INCOME

Net interest income is the most significant component of our earnings, comprising 79 percent of revenues for the three months ended March 31, 2022. Net interest income and margin are influenced by many factors, primarily the volume and mix of earning assets, funding sources, and interest rate fluctuations. Other factors include the level of accretion income on purchased loans, prepayment risk on mortgage and investment-related assets, and the composition and maturity of earning assets and interest-bearing liabilities. Loans typically generate more interest income than investment securities with similar maturities. Funding from customer deposits generally cost less than wholesale funding sources. Factors such as general economic activity, Federal Reserve Board monetary policy, and price volatility of competing alternative investments, can also exert significant influence on our ability to optimize the mix of assets and funding and the net interest income and margin.

Net interest income is the excess of interest received from earning assets over interest paid on interest-bearing liabilities. For analytical purposes, net interest income is also presented on an FTE basis in the tables that follow to reflect what 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 all periods, adjusted for the TEFRA interest disallowance applicable to certain tax-exempt obligations. The FTE analysis portrays the income tax benefits associated with tax-exempt assets and helps to facilitate a comparison between taxable and tax-exempt assets. Management believes that it is a standard practice in the banking industry to present net interest margin and net interest income on a fully taxable equivalent basis. Therefore, management believes these measures provide useful information for both management and investors by allowing them to make peer comparisons.

Net interest margin, on a tax equivalent basis, decreased 20 basis points to 3.03 percent for the three months ended March 31, 2022 compared to 3.23 percent for the same period in 2021. Average earning assets for the three months ended March 31, 2022 increased $1.2 billion compared to the same period in 2021, and was primarily attributable to an increase in investment securities of $1.2 billion. Since the beginning of the PPP in April 2020, the Bank has originated over $1.2 billion of PPP loans, which averaged $78.0 million in the first quarter of 2022 and $660.7 million in the first quarter of 2021. The Corporation's organic loan growth of $730.6 million since March 31, 2021, offset the decline in PPP loans and resulted in an increase in average loans of $19.5 million. The liquidity generated from the SBA forgiveness of PPP loans, coupled with excess liquidity generated from deposit growth, resulted in the Corporation's utilization of the liquidity for organic loan growth and investment securities purchases.

In the first quarter of 2022, FTE asset yields decreased 29 basis points compared to the same period in 2021. This decrease was primarily a result of the decline in the loan portfolio and investment portfolio yields of 25 and 15 basis points, respectively, compared to the same period in 2021. The current year investment portfolio purchases had a lower yield than the historic yield of the portfolio. The loan portfolio, which generally has an average yield higher than the investment portfolio, was 64.9 percent of earning assets in the first quarter of 2022 compared to 70.9 percent during the same period of 2021. Average investment securities for the first quarter of 2022 were 31.5 percent of total earning assets compared to 25.5 percent for the same period in 2021. The PPP loans originated were recorded at an interest rate of only 1 percent, but the Corporation also recognized fee income of $1.7 million during the first quarter of 2022 compared to $7.6 million for the same period in 2021, which is included in interest income.

The Corporation also recognized fair value accretion income on purchased loans, which is included in interest income, of $951,000, which accounted for 3 basis points of net interest margin in the first quarter of 2022. Comparatively, the Corporation recognized $1.8 million of accretion income for the first quarter of 2021, or 6 basis points of net interest margin.

Interest costs decreased 11 basis points, which partially mitigated the decrease in asset yields and resulted in an 18 basis point FTE decrease in net interest spread as compared to the same period in 2021. Interest costs have decreased as management aggressively moved deposit rates down as wholesale funding rates declined and market conditions allowed. Interest-bearing deposits and borrowing costs for the three months ended March 31, 2022 were 0.17 percent and 1.92 percent, respectively, compared to 0.27 percent and 1.89 percent, respectively, during the same period in 2021. Average borrowings decreased $58.8 million compared to the same period in 2021 as excess liquidity was used to payoff maturing FHLB advances. Average non-interest bearing deposits increased $387.0 million and equated to 21.3 percent of total deposits, compared to 20.3 percent during the same period in 2021. This increase, combined with the decrease in interest rates on interest-bearing deposits and debt repayments, resulted in a total cost of funds of 27 basis points compared to 38 basis points during the same period in 2021.

The following tables present the Corporation's average balance sheet, interest income/interest expense, and the average rate as a percent of average earning assets/liabilities for the three months ended March 31, 2022, and 2021.

(Dollars in Thousands)	Three Months Ended					
	March 31, 2022			March 31, 2021		
	Average Balance	Interest Income / Expense	Average Rate	Average Balance	Interest Income / Expense	Average Rate
Assets:						
Interest-bearing deposits	$ 484,626	$ 230	0.19 %	$ 441,254	$ 114	0.10 %
Federal Home Loan Bank stock	27,914	146	2.09	28,736	178	2.48
Investment Securities: (1)						
Taxable	1,957,675	8,510	1.74	1,494,008	6,695	1.79
Tax-Exempt (2)	2,536,634	20,095	3.17	1,822,899	15,677	3.44
Total Investment Securities	4,494,309	28,605	2.55	3,316,907	22,372	2.70
Loans held for sale	4,352	40	3.68	16,139	156	3.87
Loans: (3)						
Commercial	6,868,438	64,679	3.77	6,876,818	69,174	4.02
Real Estate Mortgage	924,268	7,840	3.39	975,262	9,286	3.81
Installment	711,038	6,516	3.67	674,307	6,489	3.85
Tax-Exempt (2)	747,832	7,220	3.86	693,895	6,758	3.90
Total Loans	9,255,928	86,295	3.73	9,236,421	91,863	3.98
Total Earning Assets	14,262,777	115,276	3.23 %	13,023,318	114,527	3.52 %
Total Non-Earning Assets	1,201,828			1,221,421		
Total Assets	$ 15,464,605			$ 14,244,739		
Liabilities:						
Interest-bearing deposits:						
Interest-bearing deposits	$ 5,027,466	$ 2,408	0.19 %	$ 4,616,988	$ 3,709	0.32 %
Money market deposits	2,514,429	872	0.14	2,086,322	835	0.16
Savings deposits	1,867,411	441	0.09	1,660,528	476	0.11
Certificates and other time deposits	676,661	573	0.34	859,334	1,180	0.55
Total Interest-bearing Deposits	10,085,967	4,294	0.17	9,223,172	6,200	0.27
Borrowings	616,572	2,966	1.92	675,117	3,188	1.89
Total Interest-bearing Liabilities	10,702,539	7,260	0.27	9,898,289	9,388	0.38
Noninterest-bearing deposits	2,731,723			2,344,746		
Other liabilities	139,120			161,272		
Total Liabilities	13,573,382			12,404,307		
Stockholders' Equity	1,891,223			1,840,432		
Total Liabilities and Stockholders' Equity	$ 15,464,605	7,260		$ 14,244,739	9,388	
Net Interest Income (FTE)		$ 108,016			$ 105,139	
Net Interest Spread (FTE) (4)			2.96 %			3.14 %
Net Interest Margin (FTE):						
Interest Income (FTE) / Average Earning Assets			3.23 %			3.52 %
Interest Expense / Average Earning Assets			0.20 %			0.29 %
Net Interest Margin (FTE) (5)			**3.03 %**			**3.23 %**

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

(2) Tax-exempt securities and loans are presented on a fully taxable equivalent basis, using a marginal tax rate of 21 percent for 2022 and 2021. These totals equal $5,736 and $4,711 for the three months ended March 31, 2022 and 2021, 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.

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

NON-INTEREST INCOME

Non-interest income totaled $25.9 million for the quarter ended March 31, 2022, a $1.8 million, or 7.5 percent, increase from the first quarter of 2021. Customer related line items accounted for $2.3 million of the increase over the same period last year with the most significant increases in service charges on deposit accounts, fiduciary and wealth management fees, and card payment fees. Of the $1.4 million increase in card payment fees, approximately $1.1 million was the result of higher card volume incentives received in the first quarter of 2022 when compared to the first quarter of 2021. Additionally, of the $0.9 million increase in fiduciary and wealth management fees, approximately $0.5 million was organic growth, while $0.4 million was related to the April 1, 2021 acquisition of Hoosier Trust Company. Details of the Corporation's 2021 acquisition of Hoosier Trust Company can be found in NOTE 2. ACQUISITIONS of the Notes to Consolidated Condensed Financial Statements of this Quarterly Report on Form 10-Q. The only decrease in customer related fee income was a decline of $1.8 million in net gains and fees on sales of loans resulting from lower mortgage origination volume. The most significant non-customer related change was a decrease in net realized gains on sales of available for sale securities of $1.2 million from the first quarter of 2021.

NON-INTEREST EXPENSE

Non-interest expense totaled $72.3 million for the quarter ended March 31, 2022, a $6.2 million, or 9.4 percent, increase from the first quarter of 2021. The largest increase from the comparative quarter was a $3.7 million increase in salaries and employee benefits, primarily due to salary merit increases and incentive expenses. Additionally, other expenses increased $1.9 million and were driven by higher customer related contingent losses, increased customer related travel and entertainment expenses, and higher mortgage servicing rights amortization. Finally, as the Bank continues to grow, FDIC assessments have increased $0.8 million when compared to the first quarter of 2021.

INCOME TAXES

Income tax expense for the three months ended March 31, 2022 was $7,266,000 on pre-tax net income of $55,852,000. For the same period in 2021, income tax expense was $8,952,000 on pre-tax net income of $58,421,000. The effective income tax rate was 13.0 percent for the first quarter of 2022 and 15.3 percent for the first quarter of 2021.

The lower effective income tax rate for the three months ended March 31, 2022 when compared to the same period ended March 31, 2021 was primarily the result of an increase in tax-exempt interest income.

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

CAPITAL

Stockholders' Equity

The Corporation adopted the current expected credit losses ("CECL") model for calculating the allowance for credit losses on January 1, 2021. CECL replaces the previous "incurred loss" model for measuring credit losses, which encompassed allowances for current known and inherent losses within the portfolio, with an "expected loss" model for measuring credit losses, which encompasses allowances for losses expected to be incurred over the life of the portfolio. As of the adoption and day one measurement date of January 1, 2021, the Corporation recorded a one-time cumulative-effect adjustment to retained earnings, net of income taxes, of $68.0 million.

Stock Repurchase Program

On January 27, 2021, the Board of Directors of the Corporation approved a stock repurchase program of up to 3,333,000 shares of the Corporation's outstanding common stock; provided, however, that the total aggregate investment in shares repurchased under the program may not exceed $100,000,000. On a share basis, the amount of common stock subject to the repurchase program represented approximately 6 percent of the Corporation's outstanding shares at the time the program became effective. During the three months ended March 31, 2022 and 2021, the Corporation did not repurchase any shares of its common stock pursuant to the repurchase program. As of March 31, 2022, the Corporation had approximately 2.7 million shares at an aggregate value of $74.5 million available to repurchase under the program.

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.

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

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 and requires the Corporation and the Bank to maintain the minimum capital and leverage ratios as defined in the regulation and as illustrated in the table below, which capital to risk-weighted asset ratios include a 2.5 percent capital conservation buffer. Under Basel III, in order to avoid limitations on capital distributions, including dividends, the Corporation must hold a 2.5 percent capital conservation buffer above the adequately capitalized CET1 to risk-weighted assets ratio (which buffer is reflected in the required ratios below). Under Basel III, the Corporation and Bank elected to opt-out of including accumulated other comprehensive income in regulatory capital. As of September 30, 2021, the Bank met all capital adequacy requirements to be considered well capitalized under the fully phased-in Basel III capital rules. There is no threshold for well capitalized status for bank holding companies.

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

The Corporation's and Bank's actual and required capital ratios as of March 31, 2022 and December 31, 2021 were as follows:

			Prompt Corrective Action Thresholds			
	Actual		Basel III Minimum Capital Required		Well Capitalized	
March 31, 2022	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
Total risk-based capital to risk-weighted assets						
First Merchants Corporation	$ 1,609,579	13.85 %	$ 1,219,916	10.50 %	N/A	N/A
First Merchants Bank	1,452,024	12.46	1,224,057	10.50	$ 1,165,769	10.00 %
Tier 1 capital to risk-weighted assets						
First Merchants Corporation	$ 1,398,332	12.04 %	$ 987,551	8.50 %	N/A	N/A
First Merchants Bank	1,305,291	11.20	990,903	8.50	$ 932,615	8.00 %
CET1 capital to risk-weighted assets						
First Merchants Corporation	$ 1,351,667	11.63 %	$ 813,278	7.00 %	N/A	N/A
First Merchants Bank	1,305,291	11.20	816,038	7.00	$ 757,750	6.50 %
Tier 1 capital to average assets						
First Merchants Corporation	$ 1,398,332	9.37 %	$ 596,975	4.00 %	N/A	N/A
First Merchants Bank	1,305,291	8.76	596,300	4.00	$ 745,375	5.00 %

			Prompt Corrective Action Thresholds			
	Actual		Basel III Minimum Capital Required		Well Capitalized	
December 31, 2021	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
Total risk-based capital to risk-weighted assets						
First Merchants Corporation	$ 1,582,481	13.92 %	$ 1,193,840	10.50 %	N/A	N/A
First Merchants Bank	1,453,358	12.74	1,197,515	10.50	$ 1,140,490	10.00 %
Tier 1 capital to risk-weighted assets						
First Merchants Corporation	$ 1,374,240	12.09 %	$ 966,442	8.50 %	N/A	N/A
First Merchants Bank	1,309,685	11.48	969,417	8.50	$ 912,392	8.00 %
Common equity tier 1 capital to risk-weighted assets						
First Merchants Corporation	$ 1,327,634	11.68 %	$ 795,893	7.00 %	N/A	N/A
First Merchants Bank	1,309,685	11.48	798,343	7.00	$ 741,319	6.50 %
Tier 1 capital to average assets						
First Merchants Corporation	$ 1,374,240	9.30 %	$ 590,758	4.00 %	N/A	N/A
First Merchants Bank	1,309,685	8.88	589,994	4.00	$ 737,493	5.00 %

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

On April 9, 2020, federal banking regulators issued an interim final rule to modify the Basel III regulatory capital rules applicable to banking organizations to allow those organizations participating in the PPP to neutralize the regulatory capital effects of participating in the program. The interim final rule, which became effective April 13, 2020, clarified that PPP loans receive a zero percent risk weight for purposes of determining risk-weighted assets and the CET1, Tier 1 and Total Risk-Based capital ratios. At March 31, 2022 and December 31, 2021, risk-weighted assets included $48.7 million and $106.6 million, respectively, of PPP loans at a zero risk weight.

Management believes that all of the 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.

A reconciliation of GAAP measures to regulatory measures (non-GAAP) are detailed in the following table for the periods indicated.

	March 31, 2022		December 31, 2021	
(Dollars in thousands)	First Merchants Corporation	First Merchants Bank	First Merchants Corporation	First Merchants Bank
Total Risk-Based Capital				
Total Stockholders' Equity (GAAP)	$ 1,807,633	$ 1,762,893	$ 1,912,571	$ 1,896,393
Adjust for Accumulated Other Comprehensive (Income) Loss [(1)]	84,392	82,303	(55,113)	(57,352)
Less: Preferred Stock	(125)	(125)	(125)	(125)
Add: Qualifying Capital Securities	46,665	—	46,606	—
Less: Disallowed Goodwill and Intangible Assets	(562,887)	(562,439)	(564,002)	(563,554)
Add: Modified CECL Transition Amount	23,028	23,028	34,542	34,542
Less: Disallowed Deferred Tax Assets	(374)	(369)	(239)	(219)
Total Tier 1 Capital (Regulatory)	1,398,332	1,305,291	1,374,240	1,309,685
Qualifying Subordinated Debentures	65,000	—	65,000	—
Allowance for Loan Losses Includible in Tier 2 Capital	146,247	146,733	143,241	143,673
Total Risk-Based Capital (Regulatory)	$ 1,609,579	$ 1,452,024	$ 1,582,481	$ 1,453,358
Net Risk-Weighted Assets (Regulatory)	$ 11,618,250	$ 11,657,685	$ 11,369,907	$ 11,404,902
Average Assets (Regulatory)	$ 14,924,372	$ 14,907,502	$ 14,768,956	$ 14,749,855
Total Risk-Based Capital Ratio (Regulatory)	13.85 %	12.46 %	13.92 %	12.74 %
Tier 1 Capital to Risk-Weighted Assets	12.04 %	11.20 %	12.09 %	11.48 %
Tier 1 Capital to Average Assets	9.37 %	8.76 %	9.30 %	8.88 %
CET1 Capital Ratio				
Total Tier 1 Capital (Regulatory)	$ 1,398,332	$ 1,305,291	$ 1,374,240	$ 1,309,685
Less: Qualified Capital Securities	(46,665)	—	(46,606)	—
CET1 Capital (Regulatory)	$ 1,351,667	$ 1,305,291	$ 1,327,634	$ 1,309,685
Net Risk-Weighted Assets (Regulatory)	$ 11,618,250	$ 11,657,685	$ 11,369,907	$ 11,404,902
CET1 Capital Ratio (Regulatory)	11.63 %	11.20 %	11.68 %	11.48 %

[(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.

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.

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

The Corporation's tangible common equity to tangible assets ratio was 8.31 percent at March 31, 2022, and 9.01 percent at December 31, 2021. The decrease in tangible common equity and tangible assets is primarily due to the decline in mark-to-market values associated with our available for sale investment securities portfolio. At December 31, 2021, the available for sale portfolio had a net unrealized gain of $75.9 million compared to a net unrealized loss of $101.3 million at March 31, 2022. This decline in value is due to interest rate changes and not due to credit quality. The following table reconciles tangible equity to tangible assets and tangible book value per common share to traditional GAAP measures at March 31, 2022 and December 31, 2021

	Tangible Common Equity to Tangible Assets (non-GAAP)	
(Dollars in thousands, except per share amounts)	March 31, 2022	December 31, 2021
Total Stockholders' Equity (GAAP)	$ 1,807,633	$ 1,912,571
Less: Cumulative preferred stock (GAAP)	(125)	(125)
Less: Intangible assets (GAAP)	(569,494)	(570,860)
Tangible common equity (non-GAAP)	$ 1,238,014	$ 1,341,586
Total assets (GAAP)	$ 15,465,258	$ 15,453,149
Less: Intangible assets (GAAP)	(569,494)	(570,860)
Tangible assets (non-GAAP)	$ 14,895,764	$ 14,882,289
Stockholders' Equity to Assets (GAAP)	11.69 %	12.38 %
Tangible common equity to tangible assets (non-GAAP)	8.31 %	9.01 %
Tangible common equity (non-GAAP)	$ 1,238,014	$ 1,341,586
Plus: Tax Benefit of intangibles (non-GAAP)	4,615	4,875
Tangible common equity, net of tax (non-GAAP)	$ 1,242,629	$ 1,346,461
Common Stock outstanding	53,425	53,410
Book Value (GAAP)	$ 33.83	$ 35.81
Tangible book value - common (non-GAAP)	$ 23.26	$ 25.21

The following table details and reconciles tangible earnings per share, return on tangible capital and tangible assets to traditional GAAP measures for the three months ended March 31, 2022 and 2021.

	Three Months Ended March 31,	
(Dollars in thousands, except per share amounts)	2022	2021
Average goodwill (GAAP)	$ 545,385	$ 543,919
Average other intangibles (GAAP)	24,846	28,427
Average deferred tax on CDI (GAAP)	(4,755)	(5,877)
Intangible adjustment (non-GAAP)	$ 565,476	$ 566,469
Average stockholders' equity (GAAP)	$ 1,891,223	$ 1,840,432
Average cumulative preferred stock (GAAP)	(125)	(125)
Intangible adjustment (non-GAAP)	(565,476)	(566,469)
Average tangible capital (non-GAAP)	$ 1,325,622	$ 1,273,838
Average assets (GAAP)	$ 15,464,605	$ 14,244,739
Intangible adjustment (non-GAAP)	(565,476)	(566,469)
Average tangible assets (non-GAAP)	$ 14,899,129	$ 13,678,270
Net income available to common stockholders (GAAP)	$ 48,586	$ 49,469
CDI amortization, net of tax (GAAP)	1,079	1,072
Tangible net income available to common stockholders (non-GAAP)	$ 49,665	$ 50,541
Per Share Data:		
Diluted net income available to common stockholders (GAAP)	$ 0.91	$ 0.91
Diluted tangible net income available to common stockholders (non-GAAP)	$ 0.93	$ 0.93
Ratios:		
Return on average GAAP capital (ROE)	10.28 %	10.75 %
Return on average tangible capital	14.99 %	15.87 %
Return on average assets (ROA)	1.26 %	1.39 %
Return on average tangible assets	1.33 %	1.48 %

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.

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

LOAN QUALITY AND PROVISION FOR CREDIT LOSSES ON LOANS

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

Loan Quality

The quality of the loan portfolio and the 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 March 31, 2022, non-performing loans totaled $42.8 million, a decrease of $552,000 from December 31, 2021. Non-accrual loans totaled $42.7 million at March 31, 2022, a decrease of $364,000 from December 31, 2021.

Other real estate owned and repossessions, totaling $6.3 million at March 31, 2022, increased $5.7 million from December 31, 2021. The increase is primarily related to a student housing property with a carrying value of $5.8 million. For other real estate owned, current appraisals are obtained to determine fair value as management continues to aggressively market these real estate assets.

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

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

(Dollars in Thousands)	March 31, 2022	December 31, 2021
Non-Performing Assets:		
Non-accrual loans	$ 42,698	$ 43,062
Renegotiated loans	141	329
Non-performing loans (NPL)	42,839	43,391
OREO and Repossessions	6,271	558
Non-performing assets (NPA)	49,110	43,949
Loans 90-days or more delinquent and still accruing	2,085	963
NPAs and loans 90-days or more delinquent	$ 51,195	$ 44,912

The non-accrual balances in the table above include troubled debt loan restructures totaling $12.7 million and $13.7 million as of March 31, 2022 and December 31, 2021, respectively. The total balance for both periods is primarily related to one loan that became a TDR in 2021 and has a balance of $11.8 million as of March 31, 2022.

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

(Dollars in Thousands)	March 31, 2022	December 31, 2021
Non-performing assets and loans 90-days or more delinquent:		
Commercial and industrial loans	$ 10,122	$ 8,273
Agricultural land, production and other loans to farmers	103	631
Real estate loans:		
Construction	940	885
Commercial real estate, non-owner occupied	27,363	23,125
Commercial real estate, owner occupied	1,689	432
Residential	8,961	9,723
Home equity	2,017	1,840
Individuals' loans for household and other personal expenditures	—	3
Non-performing assets and loans 90-days or more delinquent:	$ 51,195	$ 44,912

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

The CARES Act, as amended by the 2021 CAA, allowed banks to suspend requirements under GAAP, effectively, through January 1, 2022, for certain loan modifications related to the COVID-19 pandemic. The federal banking agencies also issued guidance to encourage banks to make loan modifications for borrowers affected by COVID-19 or offer other borrower friendly options. In accordance with such guidance, the Bank made various short-term modifications for borrowers who were current and otherwise not past due. These included short-term, 180 days or less, modifications in the form of payment deferrals, fee waivers, extensions of repayment terms, or other delays in payment that were insignificant. At March 31, 2022, the Corporation did not have any outstanding COVID modifications, compared to $65.1 million on 49 loans at March 31, 2021.

Provision and Allowance for Credit Losses on Loans

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

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

The Corporation's total loan balance increased $107.1 million from December 31, 2021 to $9.4 billion at March 31, 2022. PPP loans accounted for $48.7 million of the total loan balance at March 31, 2022 and $106.6 million at December 31, 2021. At March 31, 2022, the allowance for credit losses totaled $196.0 million, which represents an increase of $587,000 from December 31, 2021. As a percentage of loans, the allowance for credit losses was 2.09 percent at March 31, 2022 compared to 2.11 percent at December 31, 2021. The allowance for credit losses as a percentage of total loans less PPP loans was 2.10 percent as of March 31, 2022 and 2.14 percent at December 31, 2021. The Bank anticipates that the majority of its remaining PPP loans will also be forgiven by the SBA in accordance with the terms of the program.

The extent to which COVID-19 continues to impact the Corporation's loan portfolio will depend on future developments, which are highly uncertain and are difficult to predict, including, but not limited to, the duration and severity of the pandemic, the potential for seasonal or other resurgences, actions taken by governmental authorities and other third parties to contain and treat the virus, and how quickly and to what extent normal economic and operating conditions resume. The Corporation deems the current estimate for loan portfolio credit exposure as appropriate.

There was no provision for credit losses for the three months ended March 31, 2022 and 2021. Net recoveries totaling $587,000 and net charge-offs totaling $3.6 million, respectively, were recognized for the three months ended March 31, 2022 and 2021. For the three months ended March 31, 2022, there were no individual charge-offs greater than $500,000. For the three months ended March 31, 2022 there was one individual recovery greater than 500,000 that totaled $692,000. For the three months ended March 31, 2021, there were three individual charge-offs greater than $500,000 that totaled $3.2 million. For the three months ended March 31, 2021, there were no individual recoveries greater than $500,000. The distribution of the net charge-offs (recoveries) for the three months ended March 31, 2022 and 2021 are reflected in the following table.

	Three Months Ended March 31,	
(Dollars in Thousands)	2022	2021
Net charge-offs (recoveries):		
Commercial and industrial loans	$ (128)	$ 484
Agricultural land, production and other loans to farmers	(3)	1
Real estate loans:		
Construction	—	2
Commercial real estate, non-owner occupied	120	2,511
Commercial real estate, owner occupied	(705)	638
Residential	45	72
Home equity	(67)	(165)
Individuals' loans for household and other personal expenditures	151	78
Total net charge-offs (recoveries)	$ (587)	$ 3,621

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 credit loss experience, changes in the composition of the loan portfolio, and the current condition and amount of loans outstanding. The determination of the provision for credit losses in any period is based on management's continuing review and evaluation of the loan portfolio, and its judgment as to the impact of current economic conditions on the portfolio.

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 $2.2 billion at March 31, 2022, a decrease of $180.4 million, or 7.7 percent, from December 31, 2021. 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 $7.7 million at March 31, 2022. 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 March 31, 2022, total borrowings from the FHLB were $309.0 million. The Bank has pledged certain mortgage loans and investments to the FHLB. The total available remaining borrowing capacity from the FHLB at March 31, 2022 was $720.9 million.

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

The following table presents the Corporation's material cash requirements from known contractual and other obligations at March 31, 2022:

	Payments Due In		
(Dollars in Thousands)	**One Year or Less**	**Over One Year**	**Total**
Deposits without stated maturity	$ 12,250,450	$ —	$ 12,250,450
Certificates and other time deposits	525,758	129,745	655,503
Securities sold under repurchase agreements	169,697	—	169,697
Federal Home Loan Bank advances	105,072	203,888	308,960
Subordinated debentures and term loans	—	122,012	122,012
Total	$ 13,050,977	$ 455,645	$ 13,506,622

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

Summarized credit-related financial instruments at March 31, 2022 are as follows:

(Dollars in Thousands)	**March 31, 2022**
Amounts of commitments:	
Loan commitments to extend credit	$ 3,958,844
Standby and commercial letters of credit	31,854
	$ 3,990,698

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

INTEREST SENSITIVITY AND DISCLOSURE ABOUT MARKET RISK

Asset/Liability management has been an important factor in the Corporation's ability to record consistent earnings growth through periods of interest rate volatility and product deregulation. Management and the Board of Directors monitor the Corporation's liquidity and interest sensitivity positions at regular meetings to review how changes in interest rates may affect earnings. Decisions regarding investment and the pricing of loan and deposit products are made after analysis of reports designed to measure liquidity, rate sensitivity, the Corporation's exposure to changes in net interest income given various rate scenarios and the economic and competitive environments.

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

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 March 31, 2022, remained adequate to meet the Corporation's primary goal of achieving optimum interest margins while avoiding undue interest rate risk.

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

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 March 31, 2022 and December 31, 2021, assume further interest rate changes in addition to the base simulation discussed above. These changes are immediate and parallel changes to the base case scenario.

Results for the rising 200 basis points, and falling 100 basis points interest rate scenarios are listed below based upon the Corporation's rate sensitive assets and liabilities at March 31, 2022 and December 31, 2021. The change from the base scenario represents cumulative net interest income over a twelve-month time horizon. Balance sheet assumptions used for the base scenario are the same for the rising and falling simulations.

	March 31, 2022	December 31, 2021
Rising 200 basis points from base case	1.6 %	1.4 %
Falling 100 basis points from base case	(1.0)%	(0.9)%

EARNING ASSETS

The following table presents the earning asset mix as of March 31, 2022 and December 31, 2021. Earning assets decreased by $9.2 million during the three months ended March 31, 2022.

Interest bearing deposits decreased $78.9 million from December 31, 2021 to March 31, 2022 as excess liquidity was used to purchase investment securities and fund loan growth.

Total investment securities decreased $35.1 million from December 31, 2021. The Corporation purchased investment securities by utilizing excess liquidity from deposit growth and SBA forgiveness of PPP loans. The increase from purchases was offset by a change from a net unrealized gain of $75.9 million at December 31, 2021 to a net unrealized loss of $101.3 million as of March 31, 2022 on the available for sale portfolio. The change to a net unrealized loss position was primarily due the changes in interest rates and not credit quality. Additional details of the changes in the Corporation's investment securities portfolio are discussed within NOTE 3. INVESTMENT SECURITIES of the Notes to Consolidated Condensed Financial Statements of this Quarterly Report on Form 10-Q.

The Corporation's total loan portfolio increased $107.1 million from December 31, 2021. As of March 31, 2022, the Corporation's PPP loan portfolio, primarily in the commercial and industrial loans class, totaled $48.7 million, a decrease of $57.9 million from the December 31, 2021 balance of $106.6 million. The Corporation experienced organic loan growth of $165.0 million, or 7.2% on an annualized basis, when offset by the decline in PPP loans.

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

The loan classes that experienced the largest increases from December 31, 2021 were commercial and industrial loans, residential real estate and construction real estate. The decline in PPP loans was offset by organic loan growth in the commercial and industrial loan class of $170.0 million, resulting in a net increase of $112.1 million. Loan classes that experienced the largest decreases from December 31, 2021 were commercial real estate (non-owner occupied) and agricultural land, production and other loans to farmers. Additional details of the changes in the Corporation's loans are discussed within NOTE 4. LOANS AND ALLOWANCE of the Notes to Consolidated Condensed Financial Statements of this Quarterly Report on Form 10-Q, and the "LOAN QUALITY AND PROVISION FOR CREDIT LOSSES ON LOANS" section of this Management's Discussion and Analysis of Financial Condition and Results of Operations.

Federal Home Loan Bank Stock decreased $2.3 million, the Corporation repurchased excess stock.

(Dollars in Thousands)	March 31, 2022	December 31, 2021
Interest-bearing deposits	$ 395,262	$ 474,154
Investment securities available for sale	2,164,197	2,344,551
Investment securities held to maturity, net of allowance for credit losses of $245,000 and $245,000	2,325,066	2,179,802
Loans held for sale	3,938	11,187
Loans	9,356,241	9,241,861
Federal Home Loan Bank stock	26,422	28,736
Total	$ 14,271,126	$ 14,280,291

OTHER

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

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

PART I: FINANCIAL INFORMATION
ITEM 4. CONTROLS AND PROCEDURES

ITEM 4. CONTROLS AND PROCEDURES

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

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

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

ITEM 1. LEGAL PROCEEDINGS

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

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

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors previously disclosed in the Corporation’s Annual Report on Form 10-K for the year ended December 31, 2021.

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

a. None

b. None

c. Issuer Purchases of Equity Securities

The following table presents information relating to our purchases of equity securities during the three months ended March 31, 2022.

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]
January, 2022	—	$ —	—	2,686,898
February, 2022	89	$ 43.26	—	2,686,898
March, 2022	338	$ 43.38	—	2,686,898
Total	427		—	

[1] During the three months ended March 31, 2022, there were no shares repurchased pursuant to the Corporation's share repurchase program described in note (2) below. The share repurchases in February 2022 and March 2022 represent shares repurchased pursuant to net settlement by employees in satisfaction of income tax withholding obligations incurred through the vesting of the Corporation's restricted stock awards.

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

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable

ITEM 5. OTHER INFORMATION

a. None

b. None

PART II: OTHER INFORMATION
ITEM 6. EXHIBITS

ITEM 6. EXHIBITS

Exhibit No:	Description of Exhibits:
2.1 (*)	Agreement and Plan of Merger between First Merchants Corporation and Level OneI Bancorp, Inc., dated as of November 4, 2021 (Incorporated by reference to Exhibit 2.1 of registrant's Form 8-K filed on November 4, 2021) (SEC No. 000-17071)
3.1	First Merchants Corporation Articles of Incorporation, as amended (Incorporated by reference to Exhibit 3.1 of registrant's Form 8-K filed on March 24, 2022) (SEC No. 000-17071)
3.2	Bylaws of First Merchants Corporation dated August 11, 2016 (Incorporated by reference to Exhibit 3.2 of 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 Exhibit 4.1 of registrant's Form 8-K filed on July 3, 2007) (SEC No. 000-17071)
4.2	Indenture dated as of July 2, 2007 (Incorporated by reference to Exhibit 4.2 of registrant's Form 8-K filed on July 3, 2007) (SEC No. 000-17071)
4.3	Guarantee Agreement dated as of July 2, 2007 (Incorporated by reference to Exhibit 4.3 of registrant's Form 8-K filed on July 3, 2007) (SEC No. 000-17071)
4.4	Form of Capital Securities Certification of First Merchants Capital Trust II (Incorporated by reference to Exhibit 4.4 of registrant's Form 8-K filed on July 3, 2007) (SEC No. 000-17071)
4.5	First Merchants Corporation Dividend Reinvestment and Stock Purchase Plan (Incorporated by reference to registrant's Prospectus filed pursuant to Rule 424(b)(3) on July 17, 2020) (SEC No. 333-229527)
4.6	Upon request, the registrant agrees to furnish supplementally to the Commission a copy of the instruments defining the rights of holders of its (a) 5.00% Fixed-to-Floating Rate Senior Notes due 2028 in the aggregate principal amount of $5 million and (b) 6.75% Fixed-to-Floating Rate Subordinated Notes due 2028 in aggregate principal amount of $65 million.
4.7	Deposit Agreement by and among First Merchants Corporation, Broadridge Corporate Issuer Solutions, Inc., as depositary, and holders from time to time of the depositary receipts described therein, as amended on March 30, 2022 (Incorporated by reference to Exhibit 4.1 of registrant's Form 8-A filed on March 30, 2022) (SEC No. 001-41342)
4.8	Form of Depositary Receipt (Incorporated by reference to Exhibit 4.2 of registrant's Form 8-A filed on March 30, 2022) (SEC No. 001-41342)
4.9	Indenture, dated as of December 18, 2019, between First Merchants Corporation (as successor to Level One Bancorp, Inc.) and Wilmington Trust, National Association, as trustee (Incorporated by reference to Exhibit 4.1 of Level One Bancorp, Inc.'s Form 8-K filed on December 19, 2019) (SEC No. 001-38458)
4.10	First Supplemental Indenture, dated as of March 31, 2022, among First Merchants Corporation, Level One Bancorp, Inc. and Wilmington Trust, National Association, as trustee (2)
4.11	Form of 4.75% Fixed-to-Floating Rate Subordinated Notes due 2029 (Incorporated by reference to Exhibit 4.2 of Level One Bancorp, Inc.'s Form 8-K filed on December 19, 2019) (SEC No. 001-38458)
10.1	Level One Bancorp, Inc. 2007 Stock Option Plan as amended and restated April 15, 2015 (Incorporated by reference to Exhibit 10.5 of Level One Bancorp, Inc.'s registration statement on Form S-1 filed March 23, 2018) (SEC No. 333-223866) (1)
10.2	Amendment to the Level One Bancorp, Inc. 2007 Stock Option Plan, dated August 29, 2017 (Incorporated by reference to Exhibit 10.6 of Level One Bancorp, Inc.'s registration statement on Form S-1 filed March 23, 2018) (SEC No. 333-223866) (1)
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes - Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes - Oxley Act of 2002 (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)

(*) Schedules to the subject agreement have been omitted pursuant to Item 601(b)(2) of Regulation S-K. A copy of any omitted schedule will be furnished to the Securities and Exchange Commission upon request.

(1) Management contract or compensatory plan.

(2) Filed herewith.

(3) Furnished herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	First Merchants Corporation (Registrant)
May 10, 2022	by /s/ Mark K. Hardwick Mark K. Hardwick Chief Executive Officer (Principal Executive Officer)
May 10, 2022	by /s/ Michele M. Kawiecki Michele M. Kawiecki Executive Vice President, Chief Financial Officer (Principal Financial and Accounting Officer)

EXHIBIT-31.1

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

CERTIFICATION

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

1. I have reviewed this Quarterly Report on Form 10-Q of First Merchants Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in the Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 10, 2022

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

EXHIBIT-31.2

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

CERTIFICATION

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

1. I have reviewed this Quarterly Report on Form 10-Q of First Merchants Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in the Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 10, 2022

By: /s/ Michele M. Kawiecki
Michele M. Kawiecki
Executive Vice President,
Chief Financial 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 Quarterly Report of First Merchants Corporation (the “Corporation”) on Form 10-Q for the period ending March 31, 2022, 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.

May 10, 2022

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

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

In connection with the Quarterly Report of First Merchants Corporation (the “Corporation”) on Form 10-Q for the period ending March 31, 2022, 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.

May 10, 2022

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

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