UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

[Mark One]

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

For the fiscal year ended December 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_________

Commission file number 0-17071

FIRST MERCHANTS CORPORATION

(Exact name of registrant as specified in its charter)

Indiana	**35-1544218**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

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

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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

Title of Each Class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $0.125 stated value per share	FRME	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

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

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

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

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

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

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

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

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C.7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

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

The aggregate market value (not necessarily a reliable indication of the price at which more than a limited number of shares would trade) of the voting stock held by non-affiliates of the registrant was $2,103,712,000 as of the last business day of the registrant's most recently completed second fiscal quarter (June 30, 2022).

As of February 23, 2023 there were 59,640,348 outstanding common shares, without par value, of the registrant.

DOCUMENTS INCORPORATED BY REFERENCE

Documents	Part of Form 10-K into which incorporated
Portions of the Registrant's Definitive Proxy Statement for Annual Meeting of Shareholders to be held May 10, 2023	Part III (Items 10 through 14)

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GLOSSARY OF DEFINED TERMS

FIRST MERCHANTS CORPORATION

2021 CAA	The 2021 Consolidated Appropriations Act, signed into law on December 27, 2020, provided the annual funding for the federal government and also contained several rules giving further COVID-19 relief
ACL	Allowance for Credit Losses
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
AOCI	Accumulated Other Comprehensive Income
Bank	First Merchants Bank, a wholly-owned subsidiary of the Corporation
BHC Act	Bank Holding Company Act of 1956
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
CFPB	Consumer Financial Protection Bureau
CME Term SOFR	A forward-looking term Secured Overnight Financing Rate, as administered by CME Group Benchmark Administration Limited.
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.
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
Economic Impact Payments	Economic stimulus payments of up to $1,200 per adult and $500 per child, subject to eligibility requirements and certain limitations, as established under the CARES Act and distributed by the IRS.
ERISA	Employee Retirement Income Security Act of 1974
ESPP	Employee Stock Purchase Plan
FASB	Financial Accounting Standards Board
FDIC	Federal Deposit Insurance Corporation
FDICIA	Federal Deposit Insurance Corporation Improvement Act of 1991
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	Accounting Principles Generally Accepted in the United States of America
Hoosier	Hoosier Trust Company, which was acquired by the Bank on April 1, 2021
Indiana DFI	Indiana Department of Financial Institutions
Interagency Statement	Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus issued by banking regulators on March 22, 2020
Level One	Level One Bancorp, Inc., which was acquired by the Corporation on April 1, 2022.
LIBOR Act	Adjustable Interest Rate (LIBOR) Act enacted on March 15, 2022
MBT	MBT Financial Corp., which was acquired by the Corporation on September 1, 2019.
OCC	Office of the Comptroller of the Currency
OREO	Other real estate owned
PPP	Paycheck Protection Program, which was established by the CARES Act and implemented by the Small Business Administration to provide small business loans.
PCD	Purchased credit deteriorated loans
RSA	Restricted Stock Awards
Sarbanes-Oxley Act	Sarbanes-Oxley Act of 2002
Savings Plan	The First Merchants Corporation Retirement and Income Savings Plan
SBA	Small Business Administration
SEC	Securities and Exchange Commission
SOFR	Secured Overnight Funding Rate
TEFRA	Tax Equity and Fiscal Responsibility Act. The TEFRA disallowance reduces the amount of interest expense an entity may deduct for the purpose of carrying tax-free investment securities.
Treasury	U.S. Department of Treasury

FORWARD-LOOKING STATEMENTS

The Corporation from time to time includes forward-looking statements in its oral and written communication. The Corporation may include forward-looking statements in filings with the SEC, such as its Annual Reports on Form 10-K and its Quarterly Reports on Form 10-Q, in other written materials and oral statements made by senior management to analysts, investors, representatives of the media and others. The Corporation intends these forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and the Corporation is including this statement for purposes of these safe harbor provisions. Forward-looking statements can often be identified by the use of words like “believe”, “continue”, “pattern”, “estimate”, “project”, “intend”, “anticipate”, “expect” and similar expressions or future or conditional verbs such as “will”, “would”, “should”, “could”, “might”, “can”, “may” or similar expressions. These forward-looking statements include:

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

These forward-looking statements are subject to significant risks, assumptions and uncertainties, including, among other things, those discussed in Item 1A, “RISK FACTORS”.

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

PART I
ITEM 1. BUSINESS

GENERAL

The Corporation is a financial holding company headquartered in Muncie, Indiana and was organized in September 1982. The Corporation's Common Stock is traded on the Nasdaq Global Select Market under the symbol FRME. The Corporation has one full-service bank charter, First Merchants Bank, which opened for business in Muncie, Indiana, in March 1893. The Bank also operates First Merchants Private Wealth Advisors (a division of First Merchants Bank). The Bank includes 122 banking locations in Indiana, Ohio, Michigan and Illinois. In addition to its branch network, the Corporation offers comprehensive electronic and mobile delivery channels to its customers. The Corporation's business activities are currently limited to one significant business segment, which is community banking.

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

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

As of December 31, 2022, the Corporation had consolidated assets of $17.9 billion, consolidated deposits of $14.4 billion and stockholders' equity of $2.0 billion.

HUMAN CAPITAL

As of December 31, 2022, the Corporation and its subsidiaries had 2,124 full-time equivalent employees. Our stated mission to be the most attentive, knowledgeable, and high performing bank requires a dedicated and talented team of colleagues to succeed. Our employees prepare, every day, to deliver a customer and colleague experience that grows the Corporation. We seek to attract, retain and develop a team of diverse, committed colleagues who are capable of delivering a whole-bank delivery approach. And, we promote a work culture of development, growth, internal promotion and career pathing as expressed in Our Team statement:

We are a collection of dynamic colleagues with diverse experiences and perspectives who share a passion for positively impacting lives. We are genuinely committed to attracting and engaging teammates of diverse backgrounds. We believe in the power of inclusion and belonging.

Best Places to Work / Employer of Choice: The Bank will continue to participate in the Best Places to Work surveys in the four states we operate. We constantly strive to be an employer of choice. Onboarding, training, talent assessment and development, career conversations, development planning and a culture of pride in high performance help us achieve employer of choice status. Trust, respect, integrity and commitment are at the core of our success. A significant event in 2022 was the adoption of a Human and Workforce Rights Policy.

Employee Engagement: Our biennial Employee Engagement Survey is conducted by a third-party vendor for confidentiality and anonymity and for increased candid feedback. Results show consistently strong employee engagement with over 70 percent of our employees considered to be "highly engaged." Our response rates are high (88 percent) with the survey results providing valuable feedback that helps managers promote work satisfaction and high contribution.

Education Assistance: First Merchants offers an education assistance program that supports full- and part-time colleagues as they seek degree programs that will help them advance their careers. In 2022, over 50 employees participated in this program.

Corporate Training: Leveraging a blend of custom designed / internally built training programs and external development resources, First Merchants employees are trained and prepared to perform confidently. Role-based training focuses on topics such as privacy, fair banking and many other industry specific topics and regulations. Our training completion rates are very high related to required development (99 percent completion for required courses) and our Learning Management System (LMS) archives all development in the Corporation.

Diversity, Equity and Inclusion: We believe in attracting, retaining, and promoting a diverse workforce. Diversity, Equity and Inclusion ("DEI") initiatives are aimed at promoting the career growth and engagement of all First Merchants employees. We continue that work through our highest profile employee resource groups ("ERGs"), First Women Connections and People of Color ERGs, by promoting the development and career growth of those employees. In 2022, we launched two additional ERGs - Pride and Emerging Professionals. Additionally, we have created a DEI Employee Community, which hosts bi-weekly calls that are attended by over 150 employees. Our DEI Steering Committee provides guidance on all DEI efforts.

Talent Assessment, Succession Planning and Career Path: Over 1,000 of our employees participated in our annual Calibration Process (9 Box Talent Assessment) with the goal of identifying specific development action plans to help retain employees with high potential and performance, increase job satisfaction and improve productivity. Talent calibration supports succession and career planning for the Corporation.

PART I: ITEM 1. BUSINESS

AVAILABLE INFORMATION

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

ACQUISITION AND DIVESTITURE POLICY

The Corporation anticipates that it will continue its policy of geographic expansion of its banking business through the acquisition of banks whose operations are consistent with its banking philosophy. Management routinely explores opportunities to acquire financial institutions and other financial services-related businesses and to enter into strategic alliances to expand the scope of the Corporation's services and customer base. Future acquisitions and divestitures will be driven by a disciplined financial evaluation process and will be consistent with the Corporation's strategy of community banking, client relationships and consistent quality earnings. As with previous acquisitions, the consideration paid in future acquisitions may be in the form of cash or First Merchants common stock, or a combination thereof. The amount and structure of such consideration is based on reasonable growth, synergies and economies of scale and a thorough analysis of the impact on both long- and short-term financial results. Acquisitions typically involve the payment of a premium over book and market values, and, therefore, some dilution of our tangible book value and net income per share may occur in connection with any future transaction. The Corporation's ability to engage in certain merger or acquisition transactions, whether or not any regulatory approval is required, will be dependent upon the Corporation's bank regulators' views at the time as to the capital levels, quality of management and the Corporation's overall condition, and their assessment of a variety of other factors. Certain merger or acquisition transactions, including those involving the acquisition of a depository institution or the assumption of the deposits of any depository institution, require formal approval from various bank regulatory authorities, which will be subject to a variety of factors and considerations.

On April 1, 2022, the Corporation acquired 100 percent of Level One Bancorp, Inc. ("Level One"). Level One was headquartered in Farmington Hills, Michigan and had 17 banking centers serving the Michigan market. Pursuant to the merger agreement, each common shareholder of Level One received, for each outstanding share of Level One common stock held, (a) a 0.7167 share of the Corporation's common stock, and (b) a cash payment of $10.17. The Corporation issued 5.6 million shares of common stock and paid $79.3 million in cash in exchange for all outstanding shares of Level One common stock. Additionally, the Corporation issued 10,000 shares of newly created 7.5 percent non-cumulative perpetual preferred stock, with a liquidation preference of $2,500 per share, in exchange for the outstanding Level One Series B preferred stock. As part of the preferred stock exchange, 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). Details of the Level One acquisition can be found in NOTE 2. ACQUISITIONS of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

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. Details of the Hoosier acquisition can be found in NOTE 2. ACQUISITIONS of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

COMPETITION

The Bank is located in Indiana, Ohio, Michigan and Illinois counties where other financial services companies provide similar banking services. The Bank faces substantial competition in all areas of our operations from a variety of different competitors, many of which are larger and have more financial resources. Such competitors primarily include national, regional and internet banks within the various markets in which the Bank operates, though the Bank also competes with smaller community banks that seek to offer similar service levels. The Bank also faces competition from many other types of institutions, including, without limitation savings and loans associations, credit unions, finance companies, brokerage firms, insurance companies, and other financial intermediaries.

The financial services industry continues to become even more competitive as a result of legislative, regulatory and technological changes and continued consolidation. Banks, securities firms and insurance companies can operate as affiliates under the umbrella of a financial holding company, which can offer virtually any type of financial service, including banking, securities underwriting, insurance (both agency and underwriting) and merchant banking. Also, technology has lowered barriers to enter and made it possible for nonbanks to offer products and services traditionally provided by banks, such as automatic transfer and automatic payment systems. Many of our nonbank competitors have fewer regulatory constraints and may have lower cost structures. Additionally, due to their size, many competitors may be able to achieve economies of scale and, as a result, may offer broader range of products and services as well as better pricing for those products and services than we can. Finally, the Bank's competitors may choose to offer lower loan interest rates and pay higher deposit rates.

The Bank believes that the most important criteria to their targeted clients when selecting a bank is the customer's desire to receive exceptional and personal customer service while being able to enjoy convenient access to a broad array of financial products. Additionally, when presented with a choice, the Bank believes that many of their targeted clients prefer to deal with an institution that favors local decision making as opposed to where many important decisions regarding a client's financial affairs are made outside the local community.

REGULATION AND SUPERVISION OF FIRST MERCHANTS CORPORATION AND SUBSIDIARIES

The Corporation and its subsidiaries are subject to extensive regulation under federal and state laws. The regulatory framework is intended primarily for the protection of depositors, federal deposit insurance funds and the banking system as a whole and not for the protection of shareholders and creditors. Significant elements of the laws and regulations applicable to the Corporation and its subsidiaries are described below. The description is qualified in its entirety by reference to the full text of the statues, regulations and policies that are described. Also, such statutes, regulations and policies are continually under review by Congress and state legislatures and federal and state regulatory agencies. A change in statutes, regulations or regulatory policies applicable to the Corporation and its subsidiaries could have a material effect on the Corporation's business, financial condition or results of operations.

Bank Holding Company Regulation

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

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

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

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

Capital Adequacy Guidelines for Bank Holding Companies (Basel III)

The Corporation and the Bank are subject to certain risk-based capital and leverage ratio requirements under the Basel III capital rules adopted by United States banking regulators. These rules implement the Basel III international regulatory capital standards in the United States, as well as certain provisions of the Dodd-Frank Act.

The Basel III rules require the Corporation and the Bank to maintain minimum ratios of common equity tier 1 capital ("CET1"), tier 1 capital, and total capital to total risk-weighted assets, and of tier 1 capital to average total assets, all of which are calculated as defined in the regulations. Basel III specifies that CET1 consists of common stock instruments (that meet the Basel III eligibility criteria), retained earnings, accumulated other comprehensive income and CET1 minority interest. Basel III also defines CET1 narrowly by requiring that most adjustments to regulatory capital measures be made to CET1, and not to the other components of capital. Tier 1 capital consists of CET1 and "Additional Tier 1 Capital" instruments meeting the specified requirements of Basel III.

Under Basel III, in order to avoid limitations on capital distributions, including dividends, the Corporation must hold a capital conservation buffer of 2.50 percent above the adequately capitalized CET1, tier 1 and total capital to risk-weighted assets ratios.

Specifically, Basel III requires the Corporation and the Bank to maintain:

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

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

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

Basel III provides for a number of deductions from and adjustments to CET1. These include, for example, the requirement that mortgage servicing rights, deferred tax assets dependent upon future taxable income and significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10 percent of CET1 or all such categories in the aggregate exceed 15 percent of CET1. Under Basel III, the Corporation and the Bank made a one-time election to filter out certain AOCI components.

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

Basel III permits banks with less than $250 billion in assets to choose to continue excluding unrealized gains and losses on certain securities holdings for purposes of calculating regulatory capital. The rules limit a banking organization's capital distributions and certain discretionary bonus payments if the banking organization does not hold a "capital conservation buffer" consisting of a specified amount of CET1 capital in addition to the amount necessary to meet its minimum risk-based capital requirements.

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

In April 2020, federal banking regulators modified the Basel III regulatory capital rules applicable to banking organizations to allow those organizations participating in the Paycheck Protection Program ("PPP") established under the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act") to neutralize the regulatory capital effects of participating in the program by allowing PPP loans to 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 December 31, 2022, risk-weighted assets included $4.7 million of PPP loans at a zero risk weight. See "- COVID-19 and Related Legislative and Regulatory Actions" below for additional information on the PPP.

The following are the Corporation's regulatory capital ratios as of December 31, 2022:

	Corporation	Basel III Minimum Capital Required [1]
Total risk-based capital to risk-weighted assets	13.08 %	10.50 %
Tier 1 capital to risk-weighted assets	10.83 %	8.50 %
Common equity tier 1 capital to risk-weighted assets	10.65 %	7.00 %
Tier 1 capital to average assets	9.10 %	4.00 %

[1] The Basel III Minimum Capital Required are inclusive of the 2.5 percent capital conservation buffer where applicable.

Impact of CECL Implementation on Regulatory Capital

As discussed in NOTE 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES and NOTE 5. LOANS AND ALLOWANCE FOR CREDIT LOSSES of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K, the FASB issued the "current expected credit losses" ("CECL") accounting standard in 2016 to address concerns relating to the ability to record credit losses that are expected, but do not yet meet the "probable" threshold by replacing the current "incurred loss" model for recognizing credit losses with an "expected life of loan loss" model referred to as the CECL model. While the original implementation date of the CECL model was January 1, 2020, the CARES Act and a related joint statement of federal banking regulators provided financial institutions with optional temporary relief from having to comply with implementation of the CECL standard. This temporary relief was set to expire on December 31, 2020. However, the 2021 Consolidated Appropriations Act (the "2021 CAA"), which was signed into law on December 27, 2020, amended the CARES Act by extending the temporary relief from CECL compliance to, effectively, January 1, 2022. The Corporation elected to delay implementation of CECL following the approval of the CARES Act and, with the enactment of the 2021 CAA, the Corporation elected to adopt CECL on January 1, 2021. As a result, while the Corporation has utilized the CECL standard for both 2022 and 2021, its 2020 financial statements have been prepared under the incurred loss model.

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.

Bank Regulation

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

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

Bank Capital Requirements

Capital adequacy is an important indicator of financial stability and performance. The Corporation and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies including, in the case of both the Bank and the Corporation, the Basel III requirements discussed above under “- Capital Adequacy Guidelines for Bank Holding Companies (Basel III)” and, in the case of the Bank, the “prompt corrective action” requirements discussed below under “- FDIC Improvement Act of 1991 (FDICIA).” Under the regulations, a capital category is assigned to the regulated entity, which is largely determined by four ratios that are calculated according to the applicable regulations: total risk-based capital, tier 1 risk-based capital, common equity tier 1 capital, and tier 1 leverage ratios. The ratios are intended to measure capital relative to assets and credit risk associated with those assets and off-balance sheet exposures of the entity. The capital category assigned to an entity can also be affected by qualitative judgments made by regulatory agencies about the risk inherent in the entity's activities that are not part of the calculated ratios.

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

FDIC Improvement Act of 1991 (FDICIA)

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

The "prompt corrective action" regulations require the following for well capitalized status:

- a minimum CET1 risk-based capital ratio of a least 6.5 percent;
- a minimum tier 1 risk-based capital ratio of at least 8.0 percent;
- a minimum total risk-based capital ratio of at least 10.0 percent; and
- a minimum leverage ratio of 5.0 percent.

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

As of December 31, 2022, the Bank was “well capitalized” based on the “prompt corrective action” ratios described above. It should be noted that a bank’s capital category is determined solely for the purpose of applying the FDIC’s “prompt corrective action” regulations and that the capital category may not constitute an accurate representation of the bank’s overall financial condition or prospects.

Dodd-Frank Wall Street Reform and Consumer Protection Act

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

- increases to the cost of the Corporation’s operations due to greater regulatory oversight, supervision and examination of banks and bank holding companies, including higher deposit insurance premiums;
- limitations on the Corporation’s ability to raise additional capital through the use of trust preferred securities, as new issuances of these securities can no longer be included as tier 1 capital;
- reduced flexibility for the Corporation to generate or originate certain revenue-producing assets based on increased regulatory capital standards;
- limitations on the Corporation’s ability to expand consumer product and service offerings due to stricter consumer protection laws and regulations; and
- as the Corporation's assets now exceed $10 billion, compliance with the Durbin Amendment has resulted in a material reduction of interchange fee income paid by merchants when debit cards are used as payment.

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

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

Durbin Amendment

Under the Durbin Amendment to the Dodd-Frank Act, the Federal Reserve adopted rules establishing standards for assessing whether the interchange fees that may be charged with respect to certain electronic debit transactions are "reasonable and proportional" to the costs incurred by issuers for processing such transactions.

Interchange fees, or "swipe" fees, are charges that merchants pay the Bank and other card-issuing banks for processing electronic payment transactions. Federal Reserve rules applicable to financial institutions that have assets of $10 billion or more provide that the maximum permissible interchange fee for an electronic debit transaction is the sum of 21 cents per transaction and 5 basis points multiplied by the value of the transaction. An upward adjustment of no more than 1 cent to the issuer's debit card interchange fee is allowed if the card issuer develops and implements policies and procedures reasonably designed to achieve certain fraud-prevention standards. The Federal Reserve also has rules governing routing and exclusivity that require issuers to offer two unaffiliated networks for routing transactions on each debit or prepaid product.

As the Corporation's assets exceeded $10 billion during the quarter ended March 31, 20, compliance with the Durbin Amendment began July 1, 2020 (six quarters after exceeding $10 billion in total assets). For the last six months of 2020, compliance with the Durbin Amendment resulted in a material reduction of interchange fee income paid by merchants when debit cards were used as a source of payment.

Volcker Rule

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

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

Deposit Insurance

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

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

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

The FDIC may also terminate deposit insurance upon a finding that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC.

Dividend Limitations

The Corporation's principal source of funds for dividend payments to shareholders is dividends received from the Bank. Banking regulations limit the maximum amount of dividends that a bank may pay without requesting prior approval of regulatory agencies. Under these regulations, the amount of dividends that may be paid in any calendar year is limited to the bank’s retained income (as defined under the regulations) for the current year plus those for the previous two years, subject to the capital requirements described above. As of December 31, 2022, the amount available for dividends from the Corporation’s subsidiaries (both banking and non-banking), without prior regulatory approval or notice, was $288,725,000.

Brokered Deposits

Under FDIC regulations, no FDIC-insured depository institution can accept brokered deposits unless it (i) is well capitalized, or (ii) is adequately capitalized and received a waiver from the FDIC. In addition, these regulations prohibit any depository institution that is not well capitalized from (a) paying an interest rate on deposits in excess of 75 basis points over certain prevailing market rates or (b) offering “pass through” deposit insurance on certain employee benefit plan accounts unless it provides certain notice to affected depositors. The Corporation and the Bank were well capitalized as of December 31, 2022.

Consumer Financial Protection

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

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

Violations of applicable consumer protection laws can result in significant potential liability from litigation brought by customers, including actual damages, restitution and attorneys’ fees. Federal bank regulators, state attorneys general and state and local consumer protection agencies may also seek to enforce consumer protection requirements and obtain these and other remedies, including regulatory sanctions, customer rescission rights, action by the state and local attorneys general in each jurisdiction in which we operate and civil money penalties. Failure to comply with consumer protection requirements may also result in the Corporation’s failure to obtain any required bank regulatory approval for merger or acquisition transactions that it may wish to pursue or prohibition from engaging in such transactions even if approval is not required. The CFPB, an independent federal agency created under the Dodd-Frank Act, was granted broad rulemaking, supervisory and enforcement powers under various federal consumer financial protection laws, primarily with authority over banks and their affiliates with assets of more than $10 billion. As stated previously, with its assets having exceeded $10 billion for four consecutive quarters, the Bank and its affiliates became subject to CFPB supervisory and enforcement authority effective as of the beginning of the second quarter of 2020.

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

Community Reinvestment Act

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

Financial Privacy

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

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

Anti-Money Laundering and the USA Patriot Act

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

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

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

Office of Foreign Assets Control Regulation

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

COVID-19 and Related Legislative and Regulatory Actions

On January 30, 2020, the World Health Organization ("WHO") announced that the outbreak of COVID-19 constituted a public health emergency of international concern. On March 11, 2020, WHO declared COVID-19 to be a global pandemic and, on March 13, 2020, the President of the United States declared the COVID-19 outbreak a national emergency. In the two years since then, the pandemic 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 to the COVID-19 outbreak in January 2020, the U.S. Congress, through the enactment of the CARES Act in March 2020, and the federal banking agencies, though rulemaking, interpretive guidance and modifications to agency policies and procedures, took a series of actions to provide emergency economic relief measures including, among others, the following:

Paycheck Protection Program. 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 application period for new PPP loans ended May 31, 2021. The vast majority of the Bank's PPP loans made in 2020 had two-year maturities, while the loans made in 2021 had five-year maturities. Loans under the program earn interest at a fixed rate of 1 percent. Consistent with the terms of the program, virtually all of the Corporation's PPP loans have been forgiven by the SBA. As of December 31, 2022, the Corporation had $4.7 million of PPP loans outstanding compared to the December 31, 2021 balance of $106.6 million.

Loan Modifications and Troubled Debt Restructures. 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. The Corporation did not have any COVID-19 modifications outstanding as of December 31, 2022 or 2021.

Regulatory Capital. The CARES Act, the 2021 CAA, and certain actions by federal banking regulators resulted in modifications to, or delays in implementation of, various regulatory capital rules applicable to banking organizations. See "- Capital Adequacy Guidelines for Bank Holding Companies (Basel III)" above for additional information.

Additional Matters

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

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

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

STATISTICAL DATA

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

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

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

	Average Balance	Interest Income / Expense	Average Rate	Average Balance	Interest Income / Expense	Average Rate	Average Balance	Interest Income / Expense	Average Rate
(Dollars in Thousands)	2022			2021			2020		
Assets:									
Interest-bearing deposits	$ 296,863	$ 2,503	0.84 %	$ 521,637	$ 634	0.12 %	$ 319,686	$ 938	0.29 %
Federal Home Loan Bank stock	35,580	1,176	3.31	28,736	597	2.08	28,736	1,042	3.63
Investment Securities: [1]									
Taxable	2,056,586	38,354	1.86	1,751,910	29,951	1.71	1,282,827	24,440	1.91
Tax-exempt [2]	2,653,611	85,292	3.21	2,106,180	70,039	3.33	1,440,913	53,596	3.72
Total investment securities	4,710,197	123,646	2.63	3,858,090	99,990	2.59	2,723,740	78,036	2.87
Loans held for sale	14,715	692	4.70	19,190	747	3.89	18,559	781	4.21
Loans: [3]									
Commercial [6]	7,877,271	380,621	4.83	6,818,968	276,368	4.05	6,755,215	286,773	4.25
Real estate mortgage	1,471,802	51,853	3.52	916,314	34,783	3.80	889,083	40,002	4.50
Installment	785,520	37,302	4.75	683,925	26,111	3.82	718,815	30,708	4.27
Tax-exempt [2]	793,743	31,803	4.01	732,253	27,987	3.82	669,483	27,194	4.06
Total loans	10,943,051	502,271	4.59	9,170,650	365,996	3.99	9,051,155	385,458	4.26
Total earning assets	15,985,691	629,596	3.94 %	13,579,113	467,217	3.44 %	12,123,317	465,474	3.84 %
Total non-earning assets	1,234,311			1,251,284			1,342,952		
Total Assets	**$ 17,220,002**			**$ 14,830,397**			**$ 13,466,269**		
Liabilities:									
Interest-bearing deposits:									
Interest-bearing deposit accounts	$ 5,206,131	$ 32,511	0.62 %	$ 4,769,482	$ 14,512	0.30 %	$ 4,009,566	$ 20,239	0.50 %
Money market deposit accounts	2,915,397	19,170	0.66	2,351,803	3,203	0.14	1,769,478	7,810	0.44
Savings deposits	1,927,122	5,019	0.26	1,754,972	1,886	0.11	1,534,069	3,641	0.24
Certificates and other time deposits	881,176	6,239	0.71	783,733	3,718	0.47	1,346,967	20,050	1.49
Total interest-bearing deposits	10,929,826	62,939	0.58	9,659,990	23,319	0.24	8,660,080	51,740	0.60
Borrowings	888,392	21,864	2.46	639,791	12,633	1.97	768,238	14,641	1.91
Total interest-bearing liabilities	11,818,218	84,803	0.72	10,299,781	35,952	0.35	9,428,318	66,381	0.70
Noninterest-bearing deposits	3,268,417			2,516,241			2,068,026		
Other liabilities	160,922			147,743			144,790		
Total Liabilities	**15,247,557**			**12,963,765**			**11,641,134**		
Stockholders' Equity	1,972,445			1,866,632			1,825,135		
Total Liabilities and Stockholders' Equity	**$ 17,220,002**	**84,803**		**$ 14,830,397**	**35,952**		**$ 13,466,269**	**66,381**	
Net Interest Income (FTE)		$ 544,793			$ 431,265			$ 399,093	
Net Interest Spread (FTE) [4]			**3.22 %**			**3.09 %**			**3.14 %**
Net Interest Margin (FTE):									
Interest Income (FTE) / Average Earning Assets			**3.94 %**			**3.44 %**			**3.84 %**
Interest Expense / Average Earning Assets			**0.53 %**			**0.26 %**			**0.55 %**
Net Interest Margin (FTE) [5]			**3.41 %**			**3.18 %**			**3.29 %**

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[1] Average balance of securities is computed based on the average of the historical amortized cost balances without the effects of the fair value adjustment. Annualized amounts are computed using 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, 2021 and 2020. These totals equal $24,590, $20,585 and $16,966, 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.

[6] Commercial loans included $4.7 million, $106.6 million and $667.1 million of Paycheck Protection Program ("PPP") loans at December 31, 2022, 2021 and 2020, respectively.

ANALYSIS OF CHANGES IN NET INTEREST INCOME

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

	2022 Compared to 2021 Increase (Decrease) Due To			2021 Compared to 2020 Increase (Decrease) Due To			2020 Compared to 2019 Increase (Decrease) Due To		
(Dollars in Thousands, Fully Taxable Equivalent Basis)	**Volume**	**Rate**	**Total**	**Volume**	**Rate**	**Total**	**Volume**	**Rate**	**Total**
Interest Income:									
Interest-bearing deposits	$ (383)	$ 2,252	$ 1,869	$ 412	$ (716)	$ (304)	$ 1,467	$ (4,754)	$ (3,287)
Federal Home Loan Bank stock	166	413	579	—	(445)	(445)	151	(479)	(328)
Investment securities	22,353	1,303	23,656	29,977	(8,023)	21,954	18,895	(8,744)	10,151
Loans held for sale	(193)	138	(55)	26	(60)	(34)	7	(6)	1
Loans	76,919	59,411	136,330	4,223	(23,651)	(19,428)	65,095	(84,648)	(19,553)
Totals	98,862	63,517	162,379	34,638	(32,895)	1,743	85,615	(98,631)	(13,016)
Interest Expense:									
Interest-bearing deposit accounts	1,440	16,559	17,999	3,344	(9,071)	(5,727)	8,341	(22,023)	(13,682)
Money market deposit accounts	941	15,026	15,967	1,997	(6,604)	(4,607)	3,951	(10,252)	(6,301)
Savings deposits	202	2,931	3,133	465	(2,220)	(1,755)	1,832	(7,655)	(5,823)
Certificates and other time deposits	508	2,013	2,521	(6,211)	(10,121)	(16,332)	(5,896)	(8,143)	(14,039)
Borrowings	5,649	3,582	9,231	(2,521)	513	(2,008)	2,911	(5,430)	(2,519)
Totals	8,740	40,111	48,851	(2,926)	(27,503)	(30,429)	11,139	(53,503)	(42,364)
Change in net interest income (fully taxable equivalent basis)	$ 90,122	$ 23,406	113,528	$ 37,564	$ (5,392)	32,172	$ 74,476	$ (45,128)	29,348
Tax equivalent adjustment using marginal rate of 21% for 2022, 2021 and 2020			(4,005)			(3,619)			(3,881)
Change in net interest income			$ 109,523			$ 28,553			$ 25,467

INVESTMENT SECURITIES

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

The following table summarizes the amortized cost, gross unrealized gains and losses and approximate fair value of investment securities available for sale at the dates indicated.

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

	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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale at December 31, 2020				
U.S. Government-sponsored agency securities	$ 43,437	$ 1,571	$ —	$ 45,008
State and municipal	1,168,711	89,420	246	1,257,885
U.S. Government-sponsored mortgage-backed securities	591,210	20,984	103	612,091
Corporate obligations	4,031	104	—	4,135
Total available for sale	$ 1,807,389	$ 112,079	$ 349	$ 1,919,119

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 at the dates indicated.

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

	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

	Amortized Cost	Allowance for Credit Losses	Net Carrying Amount	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held to maturity at December 31, 2020						
U.S. Government-sponsored agency securities	$ 145,398	$ —	$ 145,398	$ 347	$ 220	$ 145,525
State and municipal	619,927	—	619,927	34,978	32	654,873
U.S. Government-sponsored mortgage-backed securities	460,843	—	460,843	17,552	—	478,395
Foreign investment	1,500	—	1,500	—	—	1,500
Total held to maturity	$ 1,227,668	$ —	$ 1,227,668	$ 52,877	$ 252	$ 1,280,293

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 December 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 on investments securities remained unchanged at $245,000 as of December 31, 2022.

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

	2022		2021		2020	
(Dollars in Thousands)	Cost	Yield	Cost	Yield	Cost	Yield
Federal Home Loan Bank stock	$ 38,525	3.1 %	$ 28,736	2.1 %	$ 28,736	3.6 %
Total	$ 38,525	3.1 %	$ 28,736	2.1 %	$ 28,736	3.6 %

The Corporation’s Federal Home Loan Bank stock is primarily in the Federal Home Loan Bank of Indianapolis and it continued to produce sufficient financial results to pay dividends.

There were no issuers included in the investment security portfolio at December 31, 2022, 2021 or 2020 where the aggregate carrying value of any one issuer exceeded 10 percent of the Corporation's stockholders' equity at those dates. The term "issuer" excludes the U.S. Government and its sponsored agencies and corporations.

The maturity distribution and average yields for the securities portfolio at December 31, 2022 were:

	Within 1 Year		1-5 Years		5-10 Years	
(Dollars in Thousands)	Amount	Yield [(1)]	Amount	Yield [(1)]	Amount	Yield [(1)]
Securities available for sale December 31, 2022						
U.S. Treasury	$ 1,171	3.6 %	$ 1,288	2.4 %	$ —	— %
U.S. Government-sponsored agency securities	375	2.7 %	467	2.3 %	8,616	1.4 %
State and municipal	1,263	3.2 %	9,510	2.9 %	140,419	3.5 %
Corporate obligations	—	— %	—	— %	12,176	4.3 %
	$ 2,809	3.3 %	$ 11,265	2.9 %	$ 161,211	3.4 %

	Due After Ten Years		U.S. Government-Sponsored Mortgage - Backed Securities		Total	
	Amount	Yield [(1)]	Amount	Yield [(1)]	Amount	Yield [(1)]
U.S. Treasury	$ —	— %	$ —	— %	$ 2,459	3.0 %
U.S. Government-sponsored agency securities	92,504	2.3 %	—	— %	101,962	2.3 %
State and municipal	1,200,568	3.3 %	—	— %	1,351,760	3.3 %
U.S. Government-sponsored mortgage-backed securities	—	— %	508,273	2.3 %	508,273	2.3 %
Corporate obligations	31	— %	—	— %	12,207	4.3 %
	$ 1,293,103	3.2 %	$ 508,273	2.3 %	$ 1,976,661	3.0 %

(Dollars in Thousands)	Within 1 Year Amount	Within 1 Year Yield [1]	1-5 Years Amount	1-5 Years Yield [1]	5-10 Years Amount	5-10 Years Yield [1]
Securities held to maturity at December 31, 2022						
U.S. Government-sponsored agency securities	$ —	— %	$ 40,991	1.6 %	$ 59,540	1.2 %
State and municipal	13,697	4.5 %	38,206	4.1 %	87,538	3.6 %
Foreign investment	—	— %	1,500	3.5 %	—	— %
	$ 13,697	4.5 %	$ 80,697	2.8 %	$ 147,078	2.6 %

	Due After Ten Years Amount	Due After Ten Years Yield [1]	U.S. Government-Sponsored Mortgage - Backed Securities Amount	U.S. Government-Sponsored Mortgage - Backed Securities Yield [1]	Total Amount	Total Yield [1]
U.S. Government-sponsored agency securities	$ 291,715	1.6 %	$ —	— %	$ 392,246	1.5 %
State and municipal	978,111	3.0 %	—	— %	1,117,552	3.1 %
U.S. Government-sponsored mortgage-backed securities	—	— %	776,074	2.6 %	776,074	2.6 %
Foreign investment	—	— %	—	— %	1,500	3.5 %
	$ 1,269,826	2.6 %	$ 776,074	2.6 %	$ 2,287,372	2.6 %

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

LOAN PORTFOLIO

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

(Dollars in Thousands)	2022 Amount	2022 %	2021 Amount	2021 %	2020 Amount	2020 %	2019 Amount	2019 %	2018 Amount	2018 %
Loans at December 31:										
Commercial and industrial loans	$ 3,437,126	28.6 %	$ 2,714,565	29.4 %	$ 2,776,699	30.0 %	$ 2,109,879	24.9 %	$ 1,726,664	23.9 %
Agricultural land, production and other loans to farmers	241,793	2.0	246,442	2.7	281,884	3.0	334,172	4.0	334,325	4.6
Real estate loans:										
Construction	835,582	6.9	523,066	5.7	484,723	5.2	787,568	9.3	545,729	7.5
Commercial real estate, non-owner occupied	2,407,475	20.1	2,135,459	23.1	2,220,949	24.0	1,902,692	22.4	1,865,544	25.9
Commercial real estate, owner occupied	1,246,528	10.4	986,720	10.7	958,501	10.4	909,695	10.8	724,637	10.0
Residential	2,096,655	17.5	1,159,127	12.5	1,234,741	13.4	1,143,217	13.5	966,421	13.4
Home equity	630,632	5.3	523,754	5.7	508,259	5.5	588,984	7.0	528,157	7.3
Individuals' loans for household and other personal expenditures	175,211	1.4	146,092	1.5	129,479	1.5	135,989	1.6	99,788	1.4
Public finance and other commercial loans	932,892	7.8	806,636	8.7	647,939	7.0	547,114	6.5	433,202	6.0
Loans	12,003,894	100.0 %	9,241,861	100.0 %	9,243,174	100.0 %	8,459,310	100.0 %	7,224,467	100.0 %
Allowance for loan/credit losses	(223,277)		(195,397)		(130,648)		(80,284)		(80,552)	
Net Loans	$ 11,780,617		$ 9,046,464		$ 9,112,526		$ 8,379,026		$ 7,143,915	

As of December 31, 2022, the Corporation had $4.7 million of Paycheck Protection Program ("PPP") loans compared to the December 31, 2021 and 2020 balances of $106.6 million and $667.1 million, respectively. PPP loans are included in the commercial and industrial loan class. Public finance and other commercial loans is primarily comprised of loans secured by states and political subdivisions in the United States.

At December 31, 2022, 2021, 2020, 2019, and 2018, the remaining fair value discount on acquired loans was $31.3 million, $10.9 million, $23.0 million, $36.6 million, and $30.1 million, respectively.

LOAN MATURITIES

Presented in the table below are the maturities of loans outstanding as of December 31, 2022, by collateral classification. Also presented are the amounts due after one year, classified according to the sensitivity to changes in interest rates. The tables classify variable rate loans pursuant to the contractual repricing dates of the underlying loans, while fixed rate loans are classified by contractual maturity date.

(Dollars in Thousands)	Maturing Within 1 Year	Maturing 1-5 Years	Maturing Over 5 Years	Total
Commercial and industrial loans	$ 2,734,276	$ 434,126	$ 268,724	$ 3,437,126
Agricultural land, production and other loans to farmers	89,838	98,828	53,127	241,793
Real estate loans:				
Construction	698,210	22,764	114,608	835,582
Commercial real estate, non-owner occupied	1,559,106	617,720	230,649	2,407,475
Commercial real estate, owner occupied	472,502	571,800	202,226	1,246,528
Residential	101,370	245,767	1,749,518	2,096,655
Home Equity	610,640	10,255	9,737	630,632
Individuals' loans for household and other personal expenditures	69,432	75,742	30,037	175,211
Public finance and other commercial loans	38,177	21,842	872,873	932,892
Total	$ 6,373,551	$ 2,098,844	$ 3,531,499	$ 12,003,894

(Dollars in Thousands)	Maturing 1-5 Years	Maturing Over 5 Years
Loans maturing after one year with:		
Fixed rate	$ 1,406,121	$ 2,956,205
Variable rate	692,723	575,294
Total	$ 2,098,844	$ 3,531,499

NON-PERFORMING ASSETS

The table below summarizes non-performing assets for the years indicated:

(Dollars in Thousands)	December 31, 2022	December 31, 2021	December 31, 2020	December 31, 2019	December 31, 2018
Non-performing assets:					
Non-accrual loans	$ 42,324	$ 43,062	$ 61,471	$ 15,949	$ 26,148
Renegotiated loans	224	329	3,240	841	1,103
Non-performing loans (NPL)	42,548	43,391	64,711	16,790	27,251
OREO and Repossessions	6,431	558	940	7,527	2,179
Non-performing assets (NPA)	48,979	43,949	65,651	24,317	29,430
Loans 90-days or more delinquent and still accruing	1,737	963	746	69	1,855
NPAs and loans 90-days or more delinquent	$ 50,716	$ 44,912	$ 66,397	$ 24,386	$ 31,285

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 the prior year, 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.

At December 31, 2022, non-accrual loans totaled $42.3 million, a decrease of $738,000 from December 31, 2021. At December 31, 2022, 2021, 2020, 2019, and 2018, non-accrual loans include assets acquired of $8.2 million, $3.2 million, $7.9 million, $3.7 million, and $0, respectively.

Other real estate owned ("OREO") at December 31, 2022 increased $5.9 million from the December 31, 2021 balance of $558,000. The increase is primarily related to one loan with a balance of $5.8 million. At December 31, 2022, 2021 and 2020, OREO did not include any acquired assets. OREO did include assets that were acquired from MBT of $136,000 as of December 31, 2019. OREO did not include any assets acquired as of the year ended 2018.

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

For the year ended December 31, 2022, interest income of $3.0 million was recognized on the non-accruing and renegotiated loans listed in the table above, whereas interest income of $3.2 million would have been recognized under their loan terms.

In addition to the loans discussed above, management also identified commercial loans totaling $411.6 million as of December 31, 2022 that were deemed to be risk graded criticized. Comparatively, commercial loans risk graded criticized at December 31, 2021 totaled $369.5 million. A loan risk graded criticized is a loan in which there are concerns regarding the borrower’s ability to comply with the repayment terms and would include loans graded special mention or worse.

See additional information regarding loan credit quality in the “LOAN QUALITY” section of Management’s Discussion and Analysis of Financial Condition and Results of Operations included as Item 7 of this Annual Report on Form 10-K and in NOTE 5. LOANS AND ALLOWANCE FOR CREDIT LOSSES of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

SUMMARY OF CREDIT LOSS EXPERIENCE

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

(Dollars in Thousands)	2022	2021	2020	2019	2018
Allowance for credit losses:					
Balances, January 1	$ 195,397	$ 130,648	$ 80,284	$ 80,552	$ 75,032
Impact of adopting ASC 326		74,055	—	—	—
Balances, January 1, 2021 Post-ASC 326 adoption	195,397	204,703	80,284	80,552	75,032
Charge-offs:					
Commercial [1]	(1,215)	(5,849)	(8,536)	(1,732)	(2,316)
Commercial real estate [2]	(3,017)	(4,533)	(313)	(3,675)	(2,741)
Construction	—	(6)	—	—	—
Consumer	—	—	(643)	(569)	(749)
Residential	—	—	(993)	(645)	(2,177)
Consumer & Residential	(2,369)	(1,496)	—	—	—
Total Charge-offs	(6,601)	(11,884)	(10,485)	(6,621)	(7,983)
Recoveries:					
Commercial [1]	872	724	819	1,244	2,456
Commercial real estate [2]	1,096	580	431	1,289	2,525
Construction	863	1	—	—	—
Consumer	—	—	260	401	302
Residential	—	—	666	619	993
Consumer & Residential	1,096	1,273	—	—	—
Total Recoveries	3,927	2,578	2,176	3,553	6,276
Net Charge-offs	(2,674)	(9,306)	(8,309)	(3,068)	(1,707)
Provisions for credit losses	—	—	58,673	2,800	7,227
CECL Day 1 non-PCD provision for credit losses	13,955	—	—	—	—
CECL Day 1 PCD ACL	16,599	—	—	—	—
Balance at December 31	$ 223,277	$ 195,397	$ 130,648	$ 80,284	$ 80,552
Ratio of net charge-offs during the period to average loans outstanding during the period	0.02 %	0.10 %	0.09 %	0.04 %	0.02 %

(1) Category includes commercial and industrial, agricultural land, production and other loans to farmers, and other commercial loans.

(2) Category includes commercial real estate, non-owner occupied and commercial real estate, owner occupied.

In calculating the allowance for credit losses, the loan portfolio was pooled into loan segments with similar credit risk characteristics. The Corporation pooled consumer and residential loans into one segment at adoption of CECL on January 1, 2021, but prior to adoption, consumer and residential loans were classified in separate segments. Additionally, prior to CECL adoption, construction loans were classified within the commercial real estate segment, but after CECL adoption, construction loans were classified as a separate segment. The acquisition of Level One added $16.6 million in allowance for credit losses on PCD loans and an additional $14.0 million in provision for credit losses on non-PCD loans. Details of the Allowance for Credit Losses and non-performing loans are discussed within the “LOAN QUALITY" section of Management’s Discussion and Analysis of Financial Condition and Results of Operations included as Item 7 of this Annual Report on Form 10-K.

ALLOCATION OF THE ALLOWANCE FOR CREDIT LOSSES

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

	2022		2021		2020		2019		2018	
(Dollars in Thousands)	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Balance at December 31:										
Commercial	$ 102,216	38.4 %	$ 69,935	40.8 %	$ 47,115	37.9 %	$ 32,902	32.5 %	$ 32,657	31.1 %
Commercial real estate	46,839	30.4 %	60,665	33.8 %	51,070	41.8 %	28,778	45.4 %	29,609	46.8 %
Construction	28,955	7.0 %	20,206	5.6 %	—	— %	—	— %	—	— %
Consumer	—	— %	—	— %	9,648	1.4 %	4,035	1.6 %	3,964	1.4 %
Residential	—	— %	—	— %	22,815	18.9 %	14,569	20.5 %	14,322	20.7 %
Consumer & Residential	45,267	24.2 %	44,591	19.8 %	—	— %	—	— %	—	— %
Totals	$ 223,277	100.0 %	$ 195,397	100.0 %	$ 130,648	100.0 %	$ 80,284	100.0 %	$ 80,552	100.0 %

The allowance for credit losses increased $27.9 million during the twelve months ended December 31, 2022. The allowance increased primarily due to $16.6 million of allowance for credit losses on PCD loans acquired in the Level One acquisition established through accounting adjustments on the acquisition date. In addition, a provision of $14.0 million was recorded to establish an allowance for credit losses on non-PCD loans acquired in the Level One acquisition. These increases in the allowance were offset by net charge offs of $2.7 million for the twelve months ended December 31, 2022.

Loan concentrations are considered to exist when there are amounts loaned to multiple borrowers engaged in similar activities, which would cause them to be similarly impacted by economic or other conditions. At December 31, 2022, two concentrations of commercial loans within a single industry (as segregated by North American Industry Classification System “NAICS code”) were in excess of 10 percent of total loans: Lessors of Residential Buildings and Dwellings and Lessors of Nonresidential Buildings.

CREDIT LOSS CHARGE-OFF PROCEDURES

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

PROVISION FOR CREDIT LOSSES

Credit losses are a cost of doing business in the banking industry. Although management emphasizes the early detection and charge-off of loan losses, it is inevitable that certain losses, which have not been specifically identified, exist in the portfolio. Accordingly, the provision for credit losses is charged to earnings on an anticipatory basis and recognized credit losses, net of recoveries, are deducted from the established allowance. Over time, all net credit losses are charged to 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 credit losses for the same period. In any period, the determination of the provision for credit losses is based on management’s continuing review and evaluation of the loan portfolio. The evaluation by management includes consideration of the current forecasted economic conditions, past loan loss experience, changes in the composition of the loan portfolio, reasonable and supportable economic forecasts as well as the current condition and amount of loans outstanding. See additional information in the “PROVISION EXPENSE AND ALLOWANCE FOR CREDIT LOSSES” section of Management’s Discussion and Analysis of Financial Condition and Results of Operations included as Item 7 of this Annual Report on Form 10-K.

DEPOSITS

The average balances, interest expense and average rates on deposits for the years ended December 31, 2022, 2021 and 2020 are presented in the Part I. Item I. Business section titled "DISTRIBUTION OF ASSETS, LIABILITIES AND STOCKHOLDERS' EQUITY, INTEREST RATES AND INTEREST DIFFERENTIAL" of this Annual Report on Form 10-K.

As of December 31, 2022, certificates of deposit and other time deposits exceeding the FDIC insurance limit of $250,000 mature as follows:

(Dollars in Thousands)	Maturing 3 Months or Less	Maturing 3-6 Months	Maturing 6-12 Months	Maturing Over 12 Months	Total
Uninsured certificates of deposit and other time deposits	$ 68,584	$ 57,766	$ 102,886	$ 11,539	$ 240,775
Percent	28 %	24 %	43 %	5 %	100 %

SHORT-TERM BORROWINGS

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

(Dollars in Thousands)	2022	2021	2020
Balance at December 31:			
Federal funds purchased	$ 171,560	$ —	$ —
Securities sold under repurchase agreements (short-term portion)	167,413	181,577	177,102
Federal Home Loan Bank advances (short-term portion)	460,097	75,097	55,097
Subordinated debentures and other borrowings (short-term portion)	$ 1,182	$ —	$ —
Total short-term borrowings	$ 800,252	$ 256,674	$ 232,199

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

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

(Dollars in Thousands)	2022	2021	2020
Weighted Average Interest Rate on Outstanding Balance at December 31:			
Federal funds purchased	3.5 %	1.4 %	0.3 %
Securities sold under repurchase agreements (short-term portion)	1.3 %	0.2 %	0.2 %
Federal Home Loan Bank advances (short-term portion)	2.4 %	2.1 %	1.8 %
Subordinated debentures and other borrowings (short-term portion)	1.0 %	— %	— %
Total short-term borrowings	2.4 %	0.7 %	0.6 %
Weighted Average Interest Rate During the Year:			
Federal funds purchased	3.0 %	0.8 %	0.9 %
Securities sold under repurchase agreements (short-term portion)	0.6 %	0.2 %	0.3 %
Federal Home Loan Bank advances (short-term portion)	2.5 %	2.0 %	1.9 %
Subordinated debentures and other borrowings (short-term portion)	0.7 %	— %	— %
Total short-term borrowings	1.8 %	0.7 %	0.8 %
Highest Amount Outstanding at Any Month End During the Year:			
Federal funds purchased	$ 240,406	$ —	$ 80,000
Securities sold under repurchase agreements (short-term portion)	218,882	199,104	197,928
Federal Home Loan Bank advances (short-term portion)	460,000	75,000	131,300
Subordinated debentures and other borrowings (short-term portion)	$ 1,230	$ —	$ —
Total short-term borrowings	$ 920,518	$ 274,104	$ 409,228
Average Amount Outstanding During the year:			
Federal funds purchased	$ 44,041	$ 617	$ 13,126
Securities sold under repurchase agreements (short-term portion)	185,082	173,839	180,740
Federal Home Loan Bank advances (short-term portion)	265,822	64,356	67,408
Subordinated debentures and other borrowings (short-term portion)	$ 1,212	$ —	$ —
Total short-term borrowings	$ 496,157	$ 238,812	$ 261,274

ITEM 1A. RISK FACTORS

RISK FACTORS

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

Operational Risks

- *The Corporation's business, results of operations and financial condition may be adversely affected by epidemics and pandemics, such as the COVID-19 outbreak, or other infectious disease outbreaks.*

The Corporation may face risks related to epidemics, pandemics or other infectious disease outbreaks, which could result in a widespread health crisis that could adversely affect general commercial activity, the global economy (including the states and local economies in which we operate) and financial markets. For example, the spread of COVID-19, which has been identified as a pandemic by the World Health Organization and declared a national emergency in the United States, created a global public-health crisis that resulted in significant economic uncertainty, and has impacted household, business, economic, and market conditions, including in the states and local economies in which we conduct nearly all of our business.

The continuation of the COVID-19 pandemic, or a new epidemic, pandemic or infectious disease outbreak, may result in the Corporation closing certain offices and may require us to limit how customers conduct business through our branch network. If our employees continue or are required to work remotely, the Corporation will be exposed to increased cybersecurity risks such as phishing, malware, and other cybersecurity attacks, all of which could expose us to liability and could seriously disrupt our business operations. Furthermore, the Corporation's business operations may be disrupted due to vendors and third-party service providers being unable to work or provide services effectively during such a health crisis, including because of illness, quarantines or other government actions.

In addition, an epidemic, a pandemic or another infectious disease outbreak, or the continuation of the COVID-19 pandemic, could again significantly impact households and businesses, or cause limitations on commercial activity, increased unemployment and general economic and financial instability. An economic slow-down in, or a reversal in the economic recovery of, the regions in which we conduct our business could result in declines in loan demand and collateral values. Furthermore, negative impacts on our customers caused by such a health crisis, including the continuation of COVID-19, could result in increased risk of delinquencies, defaults, foreclosures and losses on our loans. Moreover, governmental and regulatory actions taken in response to an epidemic, a pandemic or another infectious disease outbreak may include decreased interest rates, which could adversely impact the Corporation's interest margins and may lead to decreases in the Corporation's net interest income.

The extent to which a widespread health crisis, including the continuation of COVID-19, may impact the Corporation's business, results of operations and financial condition, as well as its regulatory capital and liquidity ratios, 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 crisis, the potential for seasonal or other resurgences, actions taken by governmental authorities and other third parties to contain and treat an epidemic, a pandemic or another infectious disease outbreak, and how quickly and to what extent normal economic and operating conditions can resume. Moreover, the effects of a widespread health crisis, including the continuation of the COVID-19 pandemic, may heighten many of the other risks described in this "Risk Factors" section. As a result, the negative effects on the Corporation's business, results of operations and financial condition from an epidemic, a pandemic or another infectious disease outbreak, including the continuation or resurgence of the COVID-19 pandemic, could be material.

- *As a participating lender in the Small Business Administration's Paycheck Protection Program (the "PPP" or "program"), the Corporation and the Bank are subject to additional risks of litigation from the Bank's clients or other parties in connection with the Bank's processing, funding, and servicing of loans for the PPP.*

On March 27, 2020, the CARES Act established the PPP, which is administered by the 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. Because of the short timeframe between the passing of the CARES Act and the April 3, 2020 opening of the PPP, there was some ambiguity in the laws, rules and guidance regarding the operation of the program, which exposes the Corporation to risks relating to noncompliance with the PPP. Upon commencement of the program, several larger banks have been subject to litigation relating to the policies and procedures that they used in processing applications for the program. The Corporation and the Bank may be exposed to the risk of similar litigation from both customers and non-customers that approached the Bank in connection with PPP loans.

The Bank may also be exposed to the risk that the SBA or U.S. Department of Justice determines there was a deficiency in the manner in which a PPP loan was originated, funded, or serviced by the Bank, such as an issue with the eligibility of a borrower to receive a PPP loan, which may or may not be related to the ambiguity in the laws, rules and guidance regarding the operation of the program. In the event of a loss resulting from such a determination, the SBA or U.S. Department of Justice may seek recovery of any loss related to the deficiency from the Bank.

If any PPP-related litigation is filed against the Corporation or the Bank and is not resolved in a manner favorable to the Corporation or the Bank, it may result in significant financial liability or adversely affect the Corporation's reputation. In addition, litigation can be costly, regardless of outcome. Any financial liability, litigation costs or reputational damage caused by PPP-related litigation could have a material adverse impact on our business, financial condition and results of operations.

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

The Corporation maintains allowances for credit losses for loans, off-balance sheet credit exposures, and debt securities to provide for defaults and nonperformance, which represent estimates of expected losses over the remaining contractual lives of the loan and debt security portfolios. These estimates are the result of the Corporation’s continuing evaluation of specific credit risks and loss experience, current loan and debt security portfolio quality, present economic, political and regulatory conditions, industry concentrations, reasonable and supportable forecasts for future conditions, and other factors that may indicate losses. The determination of the appropriate levels of the allowances for loan, off-balance sheet credit exposures, and debt security credit losses inherently involves a high degree of subjectivity and judgment and requires the Corporation to make estimates of current credit risks and future trends, all of which may undergo material changes. As a result, the allowances may not be adequate to cover actual losses, and future allowances for credit losses could materially and adversely affect our financial condition, results of operations, and cash flows.

The Corporation adopted Accounting Standards Update (ASU) No. 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments as amended, on January 1, 2021, which replaced the previous “incurred loss” model for measuring credit losses with an “expected life of loan loss” model described above, referred to as the CECL model. This adoption allowed the Corporation to utilize the CECL standard for each of 2021 and 2022, while its 2020 financial statements were prepared under the incurred loss model. Consistent with rules adopted by federal banking regulators, the Corporation has elected to phase 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.

Adoption of the CECL methodology has substantially changed how the Corporation calculates its allowances for credit losses and the ongoing impact of the adoption is dependent on various factors, including credit quality, macroeconomic forecasts and conditions, composition of our loans and securities portfolios, and other management judgments. See NOTE 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K for additional information. Material additions to the Corporation’s allowance through provision expense would materially decrease its net income. There can be no assurance that the Corporation’s monitoring procedures and policies will reduce certain lending risks or that the Corporation’s allowances for credit losses will be adequate to cover actual losses.

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

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

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

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

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

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

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

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

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

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

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

The increased use of, and dependence on, information management systems in order to engage with customers and conduct business necessarily creates cyber risk. Despite the significant resources and security measures used by the Corporation, the incentives for threat actors to obtain financial payment information and customer non-public information, or to conduct ransomware will continue to exist. Cyber breach statistics over the past several years evidence the targeting of numerous banking institutions and credit bureaus. Phishing attempts have also significantly increased and political conflict also presents cyber threats by nation states.

Operational risk is inherent in the Corporation's activities and can present itself in numerous ways, including internal or external fraud, business disruptions or failures, non-compliance with applicable laws and regulations, cyber breach, or failure of third parties, among other events. The result of these could be reputational harm, financial losses, or litigation and regulatory fines for the Bank. The Corporation operates in a fashion that allows operational risk to be in line with its risk appetite. To govern, monitor and control operational risk, the Corporation maintains an Enterprise Risk Management ("ERM") Program, which sets thresholds for risk appetite by key risk areas, such as strategic risk and operational risk. These thresholds are monitored by the Compliance and Internal Audit Departments and key metrics are reported to management and Board committees.

Use of third-party software and services also exposes the Corporation to cybersecurity risk as numerous service providers host critical data or have direct contact with our bank customers. Although the Corporation adheres to industry standard practices in conducting thorough due diligence of vendors and contract management, should a vendor experience a breach the bank could still suffer reputational harm, and potentially financial losses. Expanded use of cloud-based technologies and providing our customers more internet-based product offerings to continue to remain competitive will serve to increase these potential risks. The Corporation's third-party management program helps to mitigate risks posed by reliance on third and fourth parties.

To combat these ever-present cyber risks, the Corporation maintains a comprehensive Information Security Program, which includes annual risk assessments, an Incident Response Plan, and a layered control environment meant to detect, prevent, and limit unauthorized or harmful actions across our information technology environment. Standards over information security are Board-approved and various types of control testing is conducted throughout the year, both by internal parties and external ones. Findings are actioned on throughout the year and reported to various committees. The Corporation has adopted the National Institute of Standards and Technology (NIST) Cybersecurity Framework for the management and development of cyber-security controls and is an active participant in the financial sector information sharing organization structure, known as the Financial Services Information Sharing and Analysis Center.

Each year the Information Security Department conducts a cyber incident tabletop exercise for the bank's incident response teams. The bank's executive management team participates in the exercise every two years. The purpose of these tabletops is to simulate a cyber event and work through the event using our Incident Response Plan. This allows our incident response team to become familiar with the logistics of the plan, as well as provide feedback to improve the process and plan. External subject matter experts, such as Bank legal counsel, forensic advisors, marketing agency and insurance broker participate in these exercises.

Management has established an Information Security Committee in order to assist executive management and the Board of Directors of the Bank in fulfilling their oversight responsibilities related to information security. The Committee reports its activities, key conclusions and recommendations to the Enterprise Risk Management Committee and the Board's Risk and Credit Policy Committee of the Board on a quarterly basis.

At the Information Security Committee, security-related policies and standards are reviewed and approved, annual risk assessment results and action plans are noted, annual penetration test reports shared, current security incidents discussed, and relevant cyber risks and trends are presented.

The Corporation's Board of Directors has delegated primary responsibility for oversight of cybersecurity risk to its Risk and Credit Policy Committee, with its Audit Committee also considering cyber risk as part of financial oversight. The Information Security Department provides an annual update to the Risk and Credit Policy Committee of the Board on the state of the Information Security Program. This cybersecurity "deep dive" includes review of key security incidents and review of the Information Security Policy, Information Security Program, the Incident Response Plan, and the Acceptable Use Policy. The Board is then presented with the update by the Chair of the Risk and Credit Policy Committee.

The Board considers cybersecurity risks in business strategy by getting updates on the Bank's cybersecurity risk assessment. It assesses the experience of management personnel responsible for preventing, mitigating, detecting and remediating any cyber incidents, including the Chief Information Security Officer.

In 2022, the Board appointed Jason Sondhi to its Board of Directors. Mr. Sondhi is the Board's cybersecurity expert. Mr. Sondhi and his company provide endpoint detection and incident response, vulnerability scans, security information and event management, security employee training and vCISO services.

- *The Corporation continually encounters technological change.*

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

- *The Corporation is subject to environmental liability risk associated with our Bank branches and any real estate collateral we acquire upon foreclosure.*

A significant portion of our loan portfolio is secured by real property. During the ordinary course of business, we may foreclose on and take title to properties securing certain loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. The costs associated with investigation and remediation activities could be substantial. If hazardous or toxic substances are found, we may be liable for remediation costs, as well as for personal injury and property damage, including damages and costs resulting from environmental contamination emanating from the property. Although we have policies and procedures to perform an environmental review before initiating foreclosure, these actions may not be sufficient to detect all potential environmental hazards.

We also have an extensive branch network, owning branch locations throughout the areas we serve that may be subject to similar environmental liability risks. Environmental laws may require us to incur substantial expenses and could materially reduce the affected property's value or limit our ability to use or sell the affected property. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on our business, financial condition or results of operations.

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

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

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

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

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

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

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

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

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

At December 31, 2022, the Corporation had goodwill of $712.0 million recorded on its consolidated balance sheet. Under ASC 350, Intangibles – Goodwill and Other, the Corporation is required to evaluate goodwill for impairment on an annual basis, as well as on an interim basis, if events or changes indicate that the asset may be impaired. An impairment loss must be recognized for any excess of carrying value over the fair value of goodwill. The fair value is determined based on internal valuations using management's assumptions of future growth rates, future attrition, discount rates, multiples of earnings or other relevant factors. The resulting estimated fair value could result in material write-downs of goodwill and recording of impairment losses. Such a write-down could materially reduce the Corporation's net income and overall net worth. The Corporation also cannot predict the occurrence of certain future events that might adversely affect the fair value of goodwill. Such events include, but are not limited to, strategic decisions made in response to economic and competitive conditions, the effect of the economic environment on the Corporation's customer base, or a material negative change in its relationship with significant customers.

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

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

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

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

- *Increasing scrutiny and evolving expectations from customers, regulators, investors, and other stakeholders with respect to the Corporation's environmental, social and governance practices may impose additional costs on the Corporation or expose it to new or additional risks.*

Companies are facing increasing scrutiny from customers, regulators, investors, and other stakeholders related to their environmental, social and governance ("ESG") practices and disclosure. Investor advocacy groups, investment funds and influential investors are also increasingly focused on these practices, especially as they relate to the environment, health and safety, diversity, labor conditions and human rights. Increased ESG-related compliance costs for the Corporation as well as among our suppliers, vendors and various other parties within our supply chain could result in increases to our overall operational costs. Failure to adapt to or comply with regulatory requirements or investor or stakeholder expectations and standards could negatively impact our reputation, ability to do business with certain partners, access to capital, and our stock price. New government regulations could also result in new or more stringent forms of ESG oversight and expanding mandatory and voluntary reporting, diligence, and disclosure.

- *Climate change and related legislative and regulatory initiatives may materially affect the Corporation's business and results of operations.*

The global business community has increased its political and social awareness surrounding the state of the global environment and the issue of climate change. Further, the U.S. Congress, state legislatures and federal and state regulatory agencies continue to propose numerous initiatives related to climate change. Similar and even more expansive initiatives are expected under the current administration, including potentially increasing supervisory expectations with respect to banks' risk management practices, accounting for the effects of climate change in stress testing scenarios and systemic risk assessments, revising expectations for credit portfolio concentrations based on climate-related factors and encouraging investment by banks in climate-related initiatives and lending to communities disproportionately impacted by the effects of climate change. The lack of empirical data surrounding the credit and other financial risks posed by climate change make it impossible to predict how specifically climate change may impact our financial condition and results of operations. To the extent our customers experience unpredictable and more frequent weather disasters attributed to climate change, the value of real property securing the loans in our portfolios may be negatively impacted. Additionally, if insurance obtained by our borrowers is insufficient to cover any disaster-related losses sustained to the collateral, or if insurance coverage is otherwise unavailable to our borrowers, the collateral securing our loans may be negatively impacted by climate change, which could impact our financial condition and results of operations. Further, the effects of weather disasters attributed to climate change may negatively impact regional and local economic activity, which could lead to an adverse effect on our customers and impact the communities in which we operate. Overall, climate change, its effects and the resulting, unknown impact could have a material adverse effect on our financial condition and results of operations.

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

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

Market and Industry Risks

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

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

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

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

As a result of a widespread health crisis such as an epidemic, a pandemic or another infectious disease outbreak, the Federal Reserve may take steps to partially mitigate the adverse effects. For example, as a part of the unprecedented containment efforts and financial assistance undertaken by the U.S. Government relating to COVID-19, in March 2020, the Federal Open Market Committee (the "FOMC") had reduced the target range for the federal funds rate to 0 percent to 0.25 percent. The Federal Reserve also initiated a program to purchase an indeterminate amount of Treasury securities and agency mortgage-backed securities, corporate bonds and other investments, and numerous facilities to support the flow of credit to households and businesses. These activities also had the effect of suppressing long-term interest rates.

Beginning in the first half of 2022, in response to growing signs of inflation, the FOMC began increasing the federal funds benchmark rapidly and the Federal Reserve announced its intention to take actions to mitigate inflationary pressures by continuing to further reduce its purchase program. Rapid changes in interest rates makes it challenging for the Bank to balance its loan and deposit portfolios, which may adversely affect the Corporation's results of operations by reducing asset yields or spreads or having other adverse impacts on our business. As discussed above, the increased market interest rates could also adversely affect the ability of our floating-rate borrowers to meet their higher payment obligations. If this occurred, it could cause an increase in nonperforming assets and charge offs, which could adversely affect our business. Conversely, decreases in interest rates could result in an acceleration of loan prepayments.

While it is expected that, in order to combat inflationary trends, the Federal Reserve will continue to further increase the target federal funds rate in 2023, and maintain that higher rate throughout the year, if the Federal Reserve were to aggressively lower the target federal funds, those lower rates could pressure our interest rate spread and may adversely affect our results of operations. On the other hand, increases in interest rates, to combat inflation or otherwise, may result in a change in the mix of the Bank's noninterest and interest-bearing accounts. We are unable to predict changes in interest rates, which are affected by factors beyond our control, including inflation, deflation, recession, unemployment, money supply and other changes in financial markets. However, generally, if the interest rates on the Bank's interest-bearing liabilities increase at a faster pace than the interest rates on its interest-earning assets, the result would be a reduction in net interest income and with it, a reduction in net earnings.

- *The replacement of the LIBOR benchmark interest rate may have an impact on our business, financial condition or results of operations.*

In March 2021, the U.K. Financial Conduct Authority, the authority regulating LIBOR, announced that, among other things: (i) a majority of the current LIBOR rate settings would cease to exist immediately after December 31, 2021 (including the 1-week and 2-month U.S. dollar LIBOR settings); and (ii) the 1-month, 3-month, 6-month and 12-month U.S. dollar LIBOR settings would cease to exist after June 30, 2023. LIBOR is commonly referenced in financial contracts and the Corporation has exposure to the termination of this interest rate index in loans, derivatives, debt agreements, and other instruments.

To identify a successor rate for U.S. dollar LIBOR, the Alternative Reference Rates Committee ("ARRC"), a U.S.-based group convened by the Federal Reserve Board and the Federal Reserve Bank of New York, was formed. The ARRC has identified the SOFR as its preferred alternative rate for LIBOR. SOFR is a measure of the cost of borrowing cash overnight, collateralized by U.S. Treasury securities, and is based on directly observable U.S. Treasury-backed repurchase transactions.

On March 15, 2022, the Adjustable Interest Rate Act (the "LIBOR Act") was signed into law. The LIBOR Act establishes a uniform national approach for replacing LIBOR in legacy contracts that do not provide for the use of a clearly defined replacement benchmark rate. As directed by the LIBOR Act, on December 16, 2022, the Federal Reserve issued a final rule setting forth regulations to implement the LIBOR Act, including establishing benchmark replacements based on SOFR for contracts governed by U.S. law that reference certain tenors of U.S. dollar LIBOR (the overnight and one-, three-, six-, and 12-month tenors) and that do not have terms that provide for the use of a clearly defined and practicable replacement benchmark rate ("fallback provisions") following the first London banking day after June 30, 2023. The LIBOR Act also contains "safe harbor" provisions protecting lenders (as well as "determining" and "calculating" persons) for (i) the selection or use of a Board-selected SOFR-based benchmark replacement, (ii) the implementation of benchmark replacement conforming changes, or (iii) the determination of benchmark replacement conforming changes for contracts other than consumer loans.

As federal banking regulators required banks to stop originating new products using LIBOR by December 31, 2021, the Bank began primarily using SOFR in originating its indexed-based loans and other products following such date. The Bank is also continuing the transition of its existing LIBOR-based exposures to an appropriate alternative reference rate on or before June 30, 2023. Existing contracts without fallback provisions are expected to either be amended prior to June 30, 2023 to include such provisions or to transition to an alternative reference rate pursuant to the terms of the LIBOR Act and the related regulations.

While the regulatory framework for transition away from LIBOR to an alternative reference rate has been established, the transition could have a range of adverse effects on our business, financial condition and results of operations, which effects are unknown at this time.

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

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

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

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

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

Since the Deposit Insurance Fund is funded by premiums and assessments paid by insured banks, our FDIC insurance premium could increase in future years depending upon the FDIC's actual loss experience, changes in the Bank's financial condition or capital strength, and future conditions in the banking industry. See the "Deposit Insurance" section of "REGULATION AND SUPERVISION OF FIRST MERCHANTS CORPORATION AND SUBSIDIARIES" in Item 1: Business of this Annual Report on Form 10-K for additional information.

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

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

Additionally, our success depends, in large part, on our ability to attract and retain key people. Competition for the best people in many activities for which the Corporation is engaged is intense and we may not be able to hire people and retain them. The COVID-19 pandemic, along with general economic conditions, has made it even more difficult to retain existing employees and to attract new employees. The unexpected loss of services of key personnel could have a material adverse impact on our business, financial condition and results of operations because of their customer relationships, skills, knowledge of our markets, years of industry experience and the difficulty of promptly finding qualified replacement personnel. In addition, the scope and content of U.S. banking regulators' policies on incentive compensation, as well as changes to these policies, could adversely affect our ability to hire, retain and motivate our key employees.

- *Changes in tax legislation could materially impact the Corporation's business and financial results and the Corporation may have exposure to tax liabilities that are larger than it anticipates.*

The tax laws applicable to our business activities, including the laws of the United States and the State governments where the Corporation has tax nexus, are subject to interpretation and may change over time. From time to time, legislative initiatives, such as corporate tax rate changes, which may impact our effective tax rate and could adversely affect our deferred tax assets or our tax positions or liabilities, may be enacted. The taxing authorities in the jurisdictions in which we operate may challenge our tax positions, which could increase our effective tax rate and harm our financial position and results of operations. In addition, our future income taxes could be adversely affected by earnings being higher than anticipated in jurisdictions that have higher statutory tax rates or by changes in tax laws, regulations or accounting principles. We are subject to audit and review by U.S. federal and state tax authorities. Any adverse outcome of such a review or audit could have a negative effect on our financial position and results of operations. In addition, the determination of our provision for income taxes and other liabilities requires significant judgment by management. Although we believe that our estimates are reasonable, the ultimate tax outcome may differ from the amounts recorded in our financial statements and could have a material adverse effect on our financial results in the period or periods for which such determination is made.

General Risk Factors

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

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

The Bank conducts business through numerous facilities owned and leased. Of the 122 banking offices operated by the Bank, 96 are owned and 26 are leased from non-affiliated third parties.

None of the properties owned by the Corporation are subject to any major encumbrances. The net investment of the Corporation and subsidiaries in real estate and equipment at December 31, 2022 was $117.1 million.

ITEM 3. LEGAL PROCEEDINGS.

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

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

ITEM 4. MINE SAFETY DISCLOSURES.

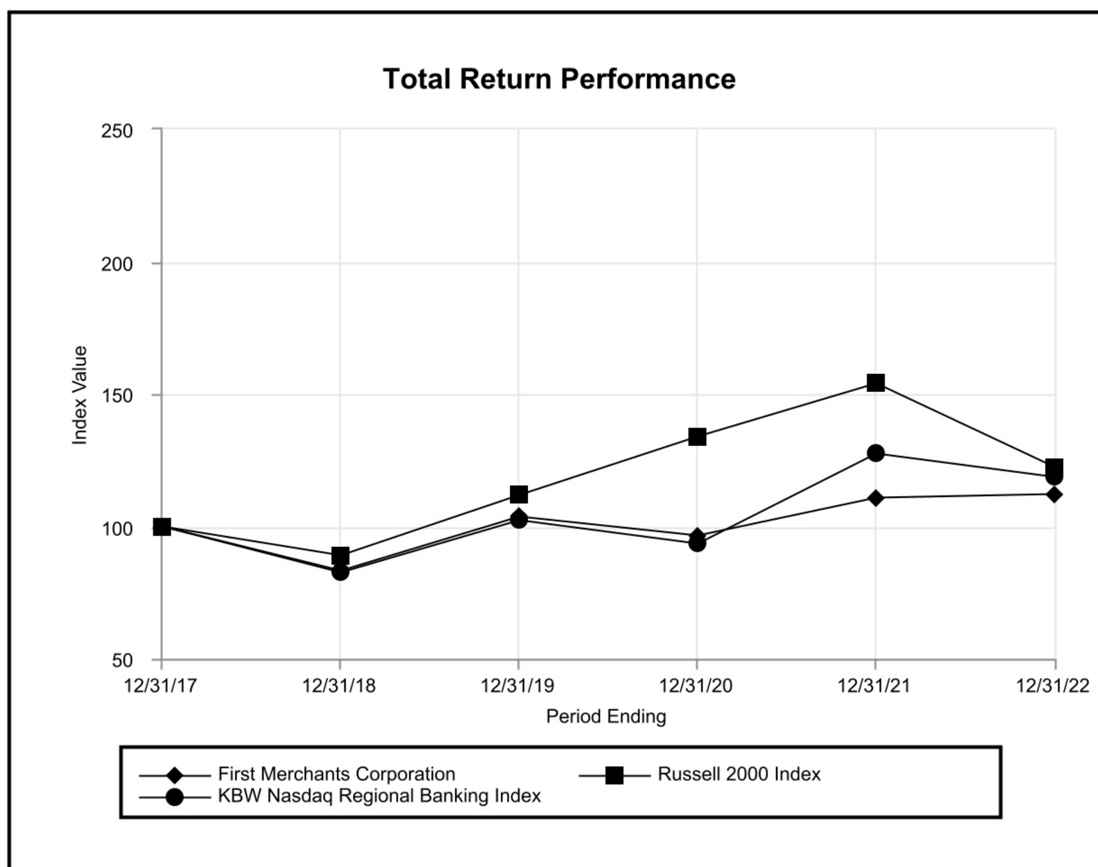
Not applicable.

PART II

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

PERFORMANCE GRAPH

The following graph compares the cumulative 5-year total return to shareholders on First Merchants Corporation's common stock relative to the cumulative total returns of the Russell 2000 index and the KBW Nasdaq Regional Banking Index. The graph assumes that the value of the investment in the Corporation's common stock and in each of the indexes (including reinvestment of dividends) was $100 on December 31, 2017 and tracks it through December 31, 2022.



	Period Ending					
Index	12/31/2017	12/31/2018	12/31/2019	12/31/2020	12/31/2021	12/31/2022
First Merchants Corporation	$ 100.00	$ 83.07	$ 103.53	$ 96.35	$ 110.80	$ 112.03
Russell 2000 Index	100.00	88.99	111.70	134.00	153.85	122.41
KBW Nasdaq Regional Banking Index	100.00	82.50	102.15	93.25	127.42	118.59

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

COMMON STOCK LISTING

First Merchants Corporation common stock is traded on the Nasdaq Global Select Market under the symbol FRME. At the close of business on February 23, 2023, the number of shares outstanding was 59,640,348. There were 4,258 stockholders of record on that date.

PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASES

The following table presents information relating to our purchases of equity securities during the three months ended December 31, 2022, as follows:

Period	Total Number of Shares Purchased [1]	Average Price Paid per Share	Total Number of Shares Purchased as part of Publicly announced Plans or Programs	Maximum Number of Shares that may yet be Purchased Under the Plans or Programs [2]
October, 2022	301	$ 42.01	—	2,686,898
November, 2022	99	$ 43.96	—	2,686,898
December, 2022	—	$ —	—	2,686,898

[1] During the three months ended December 31, 2022, there were no shares repurchased pursuant to the Corporation's share repurchase program described in note (2) below. The share repurchases in October and November 2022 represent share repurchases pursuant to net settlement by employees in satisfaction of income tax withholding obligations incurred through the vesting of the Corporation's restricted stock awards and are not a part of the Corporation's share repurchase program described in note (2) below.

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

EQUITY COMPENSATION PLAN INFORMATION

See Item 12 of Part III of this Annual Report on Form 10-K for information regarding securities authorized for issuance under equity compensation plans.

ITEM 6.

[Reserved]

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

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

The historical consolidated financial data discussed below reflects our historical results of operations and financial condition and should be read in conjunction with our financial statements and related notes thereto presented in Item 8 of this Annual Report on Form 10-K. In addition to historical financial data, this discussion includes certain forward-looking statements regarding events and trends that may affect our future results. Such statements are subject to risks and uncertainties that could cause our actual results to differ materially. See our cautionary “Statement Regarding Forward-Looking Statements." For a more complete discussion of the factors that could affect our future results, see “Risk Factors” under Item 1A of this Annual Report on Form 10-K.

OVERVIEW

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 122 banking locations in Indiana, Ohio, Michigan and Illinois. In addition to its branch network, the Corporation offers comprehensive electronic and mobile delivery channels to its customers. The Corporation’s business activities are currently limited to one significant business segment, which is community banking.

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

HIGHLIGHTS FOR 2022

- Net income available to common stockholders for the year ended December 31, 2022 was $220.7 million compared to $205.5 million for the year ended 2021, an increase of 7.4 percent. Earnings per fully diluted common share totaled $3.81 for 2022 and 2021.

- The acquisition of Level One Bancorp, Inc. (“Level One”), with 17 banking center locations in Michigan, became effective on April 1, 2022, with the core system integration being completed in August 2022.

- Adjusted net income available to common stockholders for 2022, excluding income on Paycheck Protection Program ("PPP") loans and acquisition-related costs of the Level One acquisition, was $243.4 million and adjusted diluted earnings per common share totaled $4.20, compared to $182.2 million and $3.38, respectively, in 2021. These adjusted net income and earnings per share amounts are non-GAAP measures. For reconciliations of non-GAAP measures to their most comparable GAAP measures, see "NON-GAAP FINANCIAL MEASURES" within the "Results of Operations" section of this Management's Discussion and Analysis of Financial Condition and Results of Operations.

- Total loans grew $2.8 billion during 2022, which included $1.6 billion from the acquisition of Level One. Excluding the forgiveness of $145.3 million in PPP loans, organic loan growth totaled $1.3 billion, or 13.9 percent during the year.

- Net interest income totaled $520.2 million in 2022, an increase of $109.5 million, or 26.7 percent over 2021.

- Return on average assets was 1.29 percent and the return on average equity was 11.19 percent.

COVID-19 AND RELATED LEGISLATIVE AND REGULATORY ACTIONS

On January 30, 2020, the World Health Organization (“WHO”) announced that the outbreak of COVID-19 constituted a public health emergency of international concern. On March 11, 2020, WHO declared COVID-19 to be a global pandemic and, on March 13, 2020, the President of the United States declared the COVID-19 outbreak a national emergency. In the two years since then, the pandemic 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 to the COVID-19 outbreak, the U.S. Congress, through the enactment of the CARES Act in March 2020, and the federal banking agencies, though rulemaking, interpretive guidance and modifications to agency policies and procedures, took a series of actions to provide emergency economic relief measures including, among others, the following:

Paycheck Protection Program. 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 application period for new PPP loans ended May 31, 2021. The vast majority of the Bank’s PPP loans made in 2020 had two-year maturities, while the loans made in 2021 had five-year maturities. Loans under the program earn interest at a fixed rate of 1 percent. Consistent with the terms of the program, virtually all of the Corporation's PPP loans have been forgiven by the SBA. As of December 31, 2022, the Corporation had $4.7 million of PPP loans outstanding compared to the December 31, 2021 balance of $106.6 million.

Loan Modifications and Troubled Debt Restructures. 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. The Corporation did not have any COVID-19 modifications outstanding as of December 31, 2022 or 2021.

Regulatory Capital. The CARES Act, the 2021 CAA, and certain actions by federal banking regulators resulted in modifications to, or delays in implementation of, various regulatory capital rules applicable to banking organizations. See "- Capital Adequacy Guidelines for Bank Holding Companies (Basel III)" above for additional information.

CRITICAL ACCOUNTING ESTIMATES

Generally accepted accounting principles require management to apply significant judgment to certain accounting, reporting and disclosure matters. Management must use assumptions and estimates to apply those principles where actual measurement is not possible or practical. The judgments and assumptions made are based upon historical experience or other factors that management believes to be reasonable under the circumstances. Because of the nature of the judgments and assumptions, actual results could differ from estimates, which could have a material effect on our financial condition and results of operations. For a complete discussion of the Corporation's significant accounting policies see NOTE 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

Allowance for Credit Losses - Loans

As discussed in NOTE 5. LOANS AND ALLOWANCE FOR CREDIT LOSSES of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K, the allowance for credit losses on loans is a contra-asset valuation account that is deducted from the amortized cost basis of loans to present the net amount expected to be collected. The amount of allowance represents management's best estimate of current expected credit losses on loans considering available information, from internal and external sources, relevant to assessing exposure to credit loss over the contractual term of the instrument. Relevant available information includes historical credit loss experience, current conditions and reasonable and supportable forecasts. While historical credit loss experience provides the basis for the estimation of expected credit losses, 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.

While management utilizes its best judgment and information available, the ultimate adequacy of the allowance is dependent upon a variety of factors beyond management's control, which includes, but is not limited to, the performance of the loan portfolio, the economy, changes in interest rates and the view of the regulatory authorities toward classification of assets.

Business Combinations

Business combinations are accounted for under the acquisition method of accounting. Under the acquisition method, assets and liabilities of the business acquired are recorded at their estimated fair values as of the date of acquisition with any excess of the cost of the acquisition over the fair value of the net tangible and intangible assets acquired recorded as goodwill. The Corporation uses significant estimates and assumptions to value such items, including projected cash flows, repayment rates, default rates and losses assuming default, discount rates and realizable collateral values. The allowance for credit losses for PCD loans is recognized within acquisition accounting. The allowance for credit losses for non-PCD assets is recognized as provision for credit losses in the same period as the acquisition. Fair value adjustments are amortized or accreted into the income statement over the estimated life of the acquired assets or assumed liabilities. The purchase date valuations and any subsequent adjustments determine the amount of goodwill recognized in connection with the acquisition. The use of different assumptions could produce significantly different valuation results, which could have a positive or negative effect on the Corporation's results of operations.

The determination of fair values is based on valuations using management's assumptions of future growth rates, future attrition, discount rate, and other relevant factors. In addition, third party specialists are used to assist in the development of fair values. Preliminary estimates of fair values may be adjusted for a period of time subsequent to the acquisition date if new information is obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the measurement of the amounts recognized as of that date. Adjustments recorded during this period are recognized in the current reporting period. The Corporation uses various valuation methodologies to estimate the fair value of assets and liabilities, and often involves a significant degree of judgment, particularly when liquid markets do not exist for the particular item being valued. Changes in these factors as well as downturns in economic or business conditions, could have a significant adverse impact on the carrying value of assets, including goodwill and liabilities, which could result in impairment losses affecting the financial statements.

Results of operations of Level One are included in the income statement from the date of acquisition. Details of the Corporation's acquisitions are included in NOTE 2. ACQUISITIONS of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

RESULTS OF OPERATIONS - 2022

The Corporation reported net income available to common stockholders and diluted earnings per common share for the year ended 2022 of $220.7 million and $3.81 per diluted common share, respectively, compared to $205.5 million and $3.81 per diluted common share, respectively, for the year ended 2021.

Adjusted net income available to common stockholders for the year ended 2022, excluding income on PPP loans and Level One acquisition-related expenses, was $243.4 million and adjusted diluted earnings per common share totaled $4.20, compared to $182.2 million and $3.38, respectively, for the year ended 2021. These adjusted net income and earnings per share amounts are non-GAAP measures. For reconciliations of non-GAAP measures to their most comparable GAAP measures, see "NON-GAAP FINANCIAL MEASURES" within the "Results of Operations" section of this Management's Discussion and Analysis of Financial Condition and Results of Operations.

As of December 31, 2022, total assets equaled $17.9 billion, an increase of $2.5 billion from December 31, 2021. The Corporation acquired Level One on April 1, 2022, which added $2.5 billion in assets at acquisition. Details of the acquisition are discussed within NOTE 2. ACQUISITIONS of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

Cash and due from banks and interest-bearing deposits decreased from December 31, 2021 by $44.6 million and $348.1 million, respectively, as excess cash was used to fund organic loan growth. Total investment securities decreased $260.6 million from December 31, 2021. The net unrealized gain on the Corporation's available for sale investment securities portfolio of $75.9 million at December 31, 2021 changed to a net unrealized loss of $296.7 million as of December 31, 2022. The change to a net unrealized loss position was 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 4. INVESTMENT SECURITIES of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

The Corporation's total loan portfolio grew $2.8 billion since December 31, 2021, of which, $1.6 billion was the result of the Level One acquisition. At acquisition, Level One's loan portfolio included $43.5 million of PPP loans. As of December 31, 2022, the Corporation's PPP loan portfolio, which included PPP loans from Level One, were primarily in the commercial and industrial loans class and totaled $4.7 million, a decrease of $145.3 million from the December 31, 2021 balance of $106.6 million plus the additional $43.5 million from Level One. Excluding the decline in PPP loans and the effect of Level One's acquired loans at acquisition date, the Corporation experienced organic loan growth of $1.3 billion, or 13.9 percent since December 31, 2021. All loan classes experienced increases from December 31, 2021, with the exception of agricultural land, production and other loans to farmers, and the largest increases were in residential real estate, commercial and industrial loans and construction real estate. Additional details of the changes in the Corporation's loan portfolio are discussed within NOTE 5. LOANS AND ALLOWANCE FOR CREDIT LOSSES of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K, and the "LOAN QUALITY AND PROVISION FOR CREDIT LOSSES ON LOANS" section of this Management's Discussion and Analysis of Financial Condition and Results of Operations.

The Corporation’s allowance for credit losses - loans ("ACL - loans") totaled $223.3 million as of December 31, 2022 and equaled 1.86 percent of total loans, compared to $195.4 million and 2.11 percent of total loans at December 31, 2021. The ACL - loans increased $16.6 million in connection with the Level One acquisition for CECL Day 1 purchased credit deteriorated ("PCD") loans and provision expense of $14.0 million was recorded for CECL Day 1 non-PCD loans. Additionally, provision expense of $2.8 million was recorded for CECL Day 1 unfunded commitments, which increased other liabilities. The Corporation did not recognize any provision expense during 2022 and 2021 other than CECL Day 1 expense. During the year ended December 31, 2022, the Corporation recognized $2.7 million of net charge-offs, compared to net charge-offs of $9.3 million for the year ended December 31, 2021. Non-accrual loans totaled $42.3 million, a decrease of $738,000 from December 31, 2021, but when considering the non-accrual loans acquired from Level One of $9.4 million, non-accruals decreased $10.1 million. The coverage ratio of ACL - Loans to non-accrual loans is a robust 527.5 percent. Additional details of the Corporation's allowance methodology and asset quality are discussed within NOTE 5. LOANS AND ALLOWANCE FOR CREDIT LOSSES of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K 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.

Several additional asset categories increased from December 31, 2021 primarily due to the acquisition of Level One, including premises and equipment of $11.5 million, FHLB stock of $9.8 million, interest receivable of $27.9 million, goodwill of $166.6 million, other intangibles of $10.4 million and cash surrender value of life insurance of $17.3 million.

OREO totaled $6.4 million as of December 31, 2022 and increased $5.9 million from the December 31, 2021 balance of $558,000, primarily 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 tax asset, deferred and receivable increased from $35.6 million at December 31, 2021 to $111.2 million at December 31, 2022, which included the Corporation’s net deferred tax asset increasing from $24.3 million at December 31, 2021 to $109.5 million at December 31, 2022. The $85.2 million increase in the Corporation’s net deferred tax asset was primarily due to accounting for unrealized gains and losses on available for sale securities and an increase in CECL from the acquisition of Level One.

The Corporation's other assets increased $81.5 million from December 31, 2021. The Corporation's derivative assets (recorded in other assets) and derivative liabilities (recorded in other liabilities) increased $51.9 million and $50.8 million, respectively, from December 31, 2021. The increase in valuations are due to an increase in the total notional amount outstanding, continual increases in the FOMC’s target fed funds rate resulting in higher nominal rates and increased forward rate expectations. The remaining increases in other assets relate to the Corporation's investments in community redevelopment funds, which increased $16.0 million since December 31, 2021 and an increase of $3.9 million in receivables due to pending settlements related to asset sales. The Level One acquisition contributed to an increase in the right of use lease asset of $5.8 million related to the addition of Level One's leased facilities and an increase in mortgage servicing rights of $3.4 million related to Level One's mortgage servicing portfolio.

Deposits increased $1.7 billion from December 31, 2021, of which, the acquisition of Level One contributed $1.9 billion in deposits. When excluding the deposits related to the acquisition, the Corporation experienced an organic deposit decline of $280.6 million, or 2.2 percent. Additional details regarding the acquisition are discussed within NOTE 2. ACQUISITIONS of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K. The majority of the organic deposit decline was due to decreases in non-maturity deposits of $513.5 million, which was offset by increases in maturity deposits of $232.9 million when compared to December 31, 2021. Higher interest rates have resulted in customers migrating funds from non-maturity products into maturity time deposit products.

Total borrowings increased $679.7 million as of December 31, 2022, compared to December 31, 2021. Federal funds purchased and Federal Home Loan Bank advances increased $171.6 million and $489.6 million, respectively, compared to December 31, 2021 as the Corporation utilized liquidity sources to fund organic loan growth. The Level One acquisition contributed to the increase in borrowings due to the assumption of $160.0 million of Federal Home Loan Bank advances and $32.6 million of subordinated debentures. Additional details of the Corporation's borrowings are discussed within NOTE 11. BORROWINGS of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

The Corporation's other liabilities as of December 31, 2022 increased $28.3 million compared to December 31, 2021. As noted above, the derivative hedge liability increased $50.8 million from December 31, 2021. At December 31, 2021, the Corporation accrued $46.1 million of trade date accounting related to loan and investment securities purchases, of which, there was no accrual at December 31, 2022. The Corporation's liability related to mortgages sold in the secondary market, but with the servicing retained, increased $11.6 million from December 31, 2021. The Level One acquisition contributed to an increase in the lease liability of $5.7 million related to the addition of Level One's leased facilities and an additional $2.8 million for CECL Day 1 allowance for credit losses on off-balance sheet credit exposures recorded in liabilities.

As part of the Level One acquisition, each outstanding share of 7.5 percent non-cumulative perpetual preferred stock, Series B, of Level One was exchanged for one share of a newly created 7.5 percent non-cumulative perpetual preferred stock, Series A, of the Corporation with a liquidation preference of $2,500 per share. As a result, the Corporation issued 10,000 shares of Series A preferred stock at the acquisition date resulting in $25.0 million of outstanding preferred stock at December 31, 2022.

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

RESULTS OF OPERATIONS - 2021

Net income available to stockholders for the year ended December 31, 2021 was $205.5 million compared to $148.6 million for the year ended 2020. Earnings per fully diluted common share for 2021 totaled $3.81 compared to $2.74 for 2020.

As of December 31, 2021, total assets equaled $15.5 billion, an increase of $1.4 billion, or 9.9 percent, from December 31, 2020. The Corporation experienced organic loan growth of $566.4 million, or 6.6 percent during 2021. This was offset by SBA forgiveness of PPP loans of $560.5 million, resulting in net loan growth of $5.9 million from December 31, 2020. At December 31, 2021, the Corporation's PPP loan portfolio, primarily included in the commercial and industrial loan class, totaled $106.6 million, a decrease of $560.5 million from the December 31, 2020 balance of $667.1 million.

The largest loan classes that experienced increases from December 31, 2020 were public finance and other commercial loans, real estate construction loans and commercial real estate (owner occupied) loans. As noted above, PPP loans, which are primarily included in the commercial and industrial loan class, decreased $560.5 million from December 31, 2020, and when coupled with organic commercial and industrial loan growth of $498.4 million, the net decrease in the commercial and industrial loan class was $62.1 million. Other loan classes that experienced significant decreases from December 31, 2020 were commercial real estate (non-owner occupied) loans, residential real estate loans and agricultural land, production and other loans to farmers. Additional details of the changes in the Corporation's loan portfolio are discussed within NOTE 5. LOANS AND ALLOWANCE FOR CREDIT LOSSES of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K, 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.

Total investment securities increased $1.4 billion, or 43.8 percent, from December 31, 2020. The Corporation purchased investment securities by utilizing excess liquidity from deposit growth, which was held in interest-bearing deposits and cash and cash equivalents, in addition to liquidity from SBA forgiveness of PPP loans. Additional details of the Corporation's investment securities portfolio are discussed within NOTE 4. INVESTMENT SECURITIES of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

The Corporation’s allowance for credit losses - loans totaled $195.4 million as of December 31, 2021 and equaled 2.11 percent of total loans. 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. The new CECL model requires the measurement of all expected credit losses for financial assets measured at amortized cost and certain off-balance sheet credit exposures 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. The impact of the adoption was an increase to the Allowance for Credit Losses - Loans of $74.1 million. Additional details of the Allowance methodology are discussed within NOTE 5. LOANS AND ALLOWANCE FOR CREDIT LOSSES of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

The Corporation did not recognize any provision expense during the year ended December 31, 2021, compared to provision expense of $58.7 million for the year ended 2020. The provision expense taken in 2020 primarily reflected the Corporation's view of increased credit risk related to the COVID-19 pandemic. The Corporation recognized net charge-offs during 2021 of $9.3 million, compared to $8.3 million in 2020. Non-accrual loans totaled $43.1 million, a decrease of $18.4 million from December 31, 2020, resulting in a coverage ratio of 453.8 percent. Additional details of the Corporation's credit quality are discussed 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.

In 2020, the Corporation announced a banking delivery transformation strategy, which included the consolidation of seventeen banking centers across its footprint by April 30, 2021. As those consolidations finalized in the second quarter of 2021, the fair value of the closed banking centers of $4.5 million was moved from premises and equipment to assets held for sale (recorded in other assets) while they are marketed for sale.

The Corporation’s tax asset, deferred and receivable increased from $12.3 million at December 31, 2020 to $35.6 million at December 31, 2021. The Corporation’s net deferred tax asset increased from $4.3 million at December 31, 2020 to $24.3 million at December 31, 2021. The $20.0 million increase in the Corporation’s net deferred tax asset was due to a combination of an increase in deferred tax assets and a decrease in deferred tax liabilities. The largest deferred tax asset increases were associated with the tax effect of the implementation and accounting for CECL of $21.1 million and accounting for unrealized gains and losses on available for sale securities of $7.5 million. Offsetting the increases to the net deferred tax asset were net deferred tax decreases associated with accounting for loan fees and accounting for pensions and employee benefits of $2.3 million and $3.3 million, respectively.

The Corporation's other assets decreased $5.9 million from December 31, 2020. The Corporation's derivative asset (recorded in other assets) and derivative liability (recorded in other liabilities) related to interest rate contracts decreased $33.2 million and $34.4 million, respectively, from December 31, 2020. 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 higher inflation expectations, current increases in short-term rate trajectories, Federal Reserve tapering and increases in term premiums. Offsetting the decrease in the Corporation's derivative asset was an increase in the Corporation's prepaid pension of $12.1 million and investments in community redevelopment funds of $7.4 million.

As of December 31, 2021, total deposits equaled $12.7 billion, an increase of $1.4 billion from December 31, 2020. The Corporation experienced increases from December 31, 2020 in demand and savings accounts of $883.0 million and $673.1 million, respectively. A portion of the increase is due to PPP loans that have remained on deposit, in addition to consumer Economic Impact Payments from the IRS that have also remained on deposit. Offsetting these increases were decreases in certificates of deposit and brokered deposits of $142.2 million and $42.9 million, respectively, from December 31, 2020. 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 $50.7 million as of December 31, 2021, compared to December 31, 2020. Federal Home Loan Bank advances decreased $55.4 million compared to December 31, 2020 as the Corporation utilized excess liquidity from deposit growth to pay off maturing advances. Additionally, securities sold under repurchase agreements increased by $4.5 million.

The Corporation's other liabilities as of December 31, 2021 increased $29.2 million compared to December 31, 2020. As part of the CECL adoption on January 1, 2021, the Corporation recorded a $20.5 million allowance for credit losses on off-balance sheet credit exposures as a liability account. This amount represents expected credit losses over the contractual period for which the Corporation is exposed to credit risk resulting from a contractual obligation to extend credit. The Corporation also accrued $46.1 million of trade date accounting related to loan and investment securities purchases as of December 31, 2021, of which, the accrual was $6.2 million as of December 31, 2020. Additionally, as noted above, the derivative hedge liability decreased $34.4 million from December 31, 2020.

The Corporation continued to maintain all regulatory capital ratios in excess of the regulatory definition of “well-capitalized.” Details of the Corporation's 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.

NON-GAAP FINANCIAL MEASURES

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

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

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

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

(Dollars In Thousands, Except Per Share Amounts)

	December 31, 2022	December 31, 2021	December 31, 2020
Net Income Available to Common Stockholders - GAAP	**$ 220,683**	**$ 205,531**	**$ 148,600**
Adjustments:			
PPP loan income	(3,207)	(30,900)	(22,418)
Acquisition-related expenses	16,531	—	—
Acquisition-related provision expense	16,755	—	—
Tax on adjustment	(7,376)	7,577	5,497
Adjusted Net Income Available to Common Stockholders - non-GAAP	$ 243,386	$ 182,208	$ 131,679
Average Diluted Common Shares Outstanding (in thousands)	57,950	53,984	54,220
Diluted Earnings Per Common Share - GAAP	**$ 3.81**	**$ 3.81**	**$ 2.74**
Adjustments:			
PPP loan income	(0.06)	(0.57)	(0.41)
Acquisition-related expenses	0.28	—	
Acquisition-related provision expense	0.30	—	
Tax on adjustment	(0.13)	0.14	0.10
Adjusted Diluted Earnings Per Common Share - non-GAAP	$ 4.20	$ 3.38	$ 2.43

TANGIBLE COMMON EQUITY TO TANGIBLE ASSETS - non-GAAP

(Dollars in thousands, except per share amounts)

	December 31, 2022	December 31, 2021
Total Stockholders' Equity (GAAP)	$ 2,034,770	$ 1,912,571
Less: Preferred stock (GAAP)	(25,125)	(125)
Less: Intangible assets (GAAP)	(747,844)	(570,860)
Tangible common equity (non-GAAP)	$ 1,261,801	$ 1,341,586
Total assets (GAAP)	$ 17,938,306	$ 15,453,149
Less: Intangible assets (GAAP)	(747,844)	(570,860)
Tangible assets (non-GAAP)	$ 17,190,462	$ 14,882,289
Stockholders' Equity to Assets (GAAP)	11.34 %	12.38 %
Tangible common equity to tangible assets (non-GAAP)	7.34 %	9.01 %
Tangible common equity (non-GAAP)	$ 1,261,801	$ 1,341,586
Plus: Tax benefit of intangibles (non-GAAP)	7,702	4,875
Tangible common equity, net of tax (non-GAAP)	$ 1,269,503	$ 1,346,461
Common Stock outstanding (in thousands)	59,171	53,410
Book Value (GAAP)	$ 33.96	$ 35.81
Tangible book value - common (non-GAAP)	$ 21.45	$ 25.21

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

	December 31, 2022	December 31, 2021	December 31, 2020
Average goodwill (GAAP)	$ 671,485	$ 545,374	$ 543,919
Average other intangibles (GAAP)	35,885	27,590	32,106
Average deferred tax on other intangibles (GAAP)	(7,567)	(5,452)	(6,648)
Intangible adjustment (non-GAAP)	$ 699,803	$ 567,512	$ 569,377
Average stockholders' equity (GAAP)	$ 1,972,445	$ 1,866,632	$ 1,825,135
Average preferred stock (GAAP)	(18,875)	(125)	(125)
Intangible adjustment (non-GAAP)	(699,803)	(567,512)	(569,377)
Average tangible capital (non-GAAP)	$ 1,253,767	$ 1,298,995	$ 1,255,633
Average assets (GAAP)	$ 17,220,002	$ 14,830,397	$ 13,466,269
Intangible adjustment (non-GAAP)	(699,803)	(567,512)	(569,377)
Average tangible assets (non-GAAP)	$ 16,520,199	$ 14,262,885	$ 12,896,892
Net income available to common stockholders (GAAP)	$ 220,683	$ 205,531	$ 148,600
Other intangible amortization, net of tax (GAAP)	6,537	4,540	4,730
Preferred stock dividend	1,406	—	—
Tangible net income available to common stockholders (non-GAAP)	$ 228,626	$ 210,071	$ 153,330
Per Share Data:			
Diluted net income available to common stockholders (GAAP)	$ 3.81	$ 3.81	$ 2.74
Diluted tangible net income available to common stockholders (non-GAAP)	$ 3.95	$ 3.89	$ 2.83
Ratios:			
Return on average GAAP capital (ROE)	11.19 %	11.01 %	8.14 %
Return on average tangible capital	18.12 %	16.17 %	12.21 %
Return on average assets (ROA)	1.29 %	1.39 %	1.10 %
Return on average tangible assets	1.38 %	1.47 %	1.19 %

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

NET INTEREST INCOME

Net interest income is the most significant component of the Corporation's earnings, comprising 82.8 percent of revenues for the year ended December 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 costs less than wholesale funding sources. Factors such as general economic activity, Federal Reserve Board monetary policy, and price volatility of competing alternative investments, can also exert significant influence on our ability to optimize the mix of assets and funding and the net interest income and margin.

Net interest income is the excess of interest received from earning assets over interest paid on interest-bearing liabilities. For analytical purposes, net interest income is also presented on an FTE basis in the table that follows to reflect what our tax-exempt assets would need to yield in order to achieve the same after-tax yield as a taxable asset. The federal statutory rate of 21 percent was used for 2022, 2021, and 2020, 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.

For the year ended December, 31 2022, FTE asset yields increased 50 basis points compared to the same period in 2021. Average earning assets for the year ended December 31, 2022 increased $2.4 billion compared to the same period in 2021, with loans accounting for $1.8 billion of the increase and investment securities accounting for $852.1 million of the increase. Of the $1.8 billion increase in average loans, $1.6 billion was attributable to the Level One acquisition on April 1, 2022, and the remaining increase was due to organic loan growth during the period after excluding PPP loans, which averaged approximately $33.2 million for the year ended December 31, 2022 compared to an average of approximately $433.7 million for the same period of 2021.

The increase in interest income, on an FTE basis, of $162.4 million during the year ended December 31, 2022 compared to the same period in 2021 was primarily due to an increase in average earning assets, coupled with the FOMC's interest rate increases of an aggregate 425 basis points in 2022. Approximately $8.0 billion of the Corporation's loan portfolio, or 67 percent, is variable with 40 percent of the portfolio repricing within one month and 50 percent repricing within three months. Additionally, due to the FOMC interest rate increases in 2022, the yields on new and renewed loans increased for the twelve months ended December 31, 2022 compared to the same period in 2021. The PPP loans originated in 2021 and 2020 were recorded at an interest rate of only 1 percent. The Corporation recognized fee and interest income of $3.2 million on PPP loans in 2022, compared to $30.9 million 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 $10.1 million, which accounted for 6 basis points of net interest margin in the year ended December 31, 2022. Comparatively, the Corporation recognized $7.3 million of accretion income for the year ended December 31, 2021, or 5 basis points of net interest margin.

Interest costs increased 37 basis points, which mitigated a majority of the 50 basis point increase in asset yields and resulted in a 13 basis point FTE increase in net interest spread when compared to the same period in 2021. Interest costs have increased during the quarter due to deposit pricing pressure primarily in the municipal deposit space and a strategic focus on relationship pricing. Average interest-bearing deposits for the year ended December 31, 2022 increased $1.3 billion compared to the same period in 2021 due to the acquisition of Level One, which included $1.2 billion of interest-bearing deposits, and the remaining increase due to organic growth. Average non-interest bearing deposits for the year ended December 31, 2022 increased $752.2 million when compared to the same period in 2021 as $738.9 million were acquired from Level One, and the remaining increase due to organic growth. Non-interest bearing deposits represented 23 percent of the Corporation's total deposit balance as of December 31, 2022 and acts to mitigate deposit yield increases as interest rates rise. Average borrowings increased $248.6 million for the year ended December 31, 2022 compared to the same period of 2021 due to the additional $194.2 million of borrowings acquired from Level One. Interest-bearing deposits and borrowing costs for the year ended December 31, 2022 were 0.58 percent and 2.46 percent, respectively, compared to 0.24 percent and 1.97 percent, respectively, during the same period in 2021. Total cost of funds was 72 basis points for the year ended December 31, 2022 compared to 35 basis points during the same period in 2021.

Net interest margin, on an FTE basis, increased 23 basis points to 3.41 percent for the year ended December, 31 2022 compared to 3.18 percent for the same period in 2021.

In 2021, the increase in average earning assets of $1.5 billion was primarily attributable to an increase in investment securities of $1.1 billion. Additionally, since the beginning of the PPP in April 2020, the Bank originated over $1.2 billion of PPP loans which averaged $433.7 million in 2021 and $601.8 million in 2020. The Corporation's organic loan growth offset the decline in PPP loans and resulted in an increase in average loans of $119.5 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.

Asset yields decreased 40 basis points FTE in 2021 compared to 2020. This decrease was primarily a result of the FOMC's interest rate decreases of 50 basis points on March 3, 2020 and 100 basis points on March 16, 2020 at the Committee's special meetings related to COVID-19. Additionally, one-month LIBOR also saw a significant decline from January 1, 2020 of 1.73 percent to December 31, 2021 of 0.10 percent. The yield of the investment portfolio decreased 28 basis points compared to the same period in 2020 as the current year 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 67.5 percent of earning assets in 2021 compared to 74.7 percent in 2020. Average investment securities were 28.4 percent of total earning assets compared to 22.5 percent in 2020. The PPP loans originated in 2021 and 2020 were recorded at an interest rate of only 1 percent, but the Corporation also recognized fee income of $26.5 million in 2021, compared to $16.2 million in 2020, which is included in interest income.

The Corporation also recognized fair value accretion income on purchased loans, which is included in interest income, of $7.3 million, which accounted for 5 basis points of net interest margin for the year ended December 31, 2021. Comparatively, the Corporation recognized $13.5 million of fair value accretion income, which accounted for 11 basis points of net interest margin for the year ended December 31, 2020.

Interest costs decreased 35 basis points, which mitigated a majority of the decrease in asset yields and resulted in only a 5 basis point FTE decrease in net interest spread as compared to the same period in 2020. 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 twelve months ended December 31, 2021 were 0.24 percent and 1.97 percent, respectively, compared to 0.60 percent and 1.91 percent, respectively, during the same period in 2020. Average borrowings decreased $128 million from 2020 as excess liquidity was used to payoff maturing FHLB advances. Average non-interest bearing deposits increased $448.2 million and equated to 20.7 percent of total deposits, compared to 19.3 percent in 2020. This increase, combined with the decrease in interest rates on interest-bearing deposits and debt repayments, resulted in a total cost of funds of 35 basis points compared to 70 basis points in 2020.

Net interest margin is a function of net interest income and the level of average earning assets. The following table presents the Corporation's interest income, interest expense, and net interest income as a percent of average earning assets for the three-year period ending in 2022.

	Average Balance	Interest Income / Expense	Average Rate	Average Balance	Interest Income / Expense	Average Rate	Average Balance	Interest Income / Expense	Average Rate
(Dollars in Thousands)	**2022**			**2021**			**2020**		
Assets:									
Interest-bearing deposits	$ 296,863	$ 2,503	0.84 %	$ 521,637	$ 634	0.12 %	$ 319,686	$ 938	0.29 %
Federal Home Loan Bank stock	35,580	1,176	3.31	28,736	597	2.08	28,736	1,042	3.63
Investment Securities: [1]									
Taxable	2,056,586	38,354	1.86	1,751,910	29,951	1.71	1,282,827	24,440	1.91
Tax-exempt [2]	2,653,611	85,292	3.21	2,106,180	70,039	3.33	1,440,913	53,596	3.72
Total investment securities	4,710,197	123,646	2.63	3,858,090	99,990	2.59	2,723,740	78,036	2.87
Loans held for sale	14,715	692	4.70	19,190	747	3.89	18,559	781	4.21
Loans: [3]									
Commercial [6]	7,877,271	380,621	4.83	6,818,968	276,368	4.05	6,755,215	286,773	4.25
Real estate mortgage	1,471,802	51,853	3.52	916,314	34,783	3.80	889,083	40,002	4.50
Installment	785,520	37,302	4.75	683,925	26,111	3.82	718,815	30,708	4.27
Tax-exempt [2]	793,743	31,803	4.01	732,253	27,987	3.82	669,483	27,194	4.06
Total loans	10,943,051	502,271	4.59	9,170,650	365,996	3.99	9,051,155	385,458	4.26
Total earning assets	15,985,691	629,596	3.94 %	13,579,113	467,217	3.44 %	12,123,317	465,474	3.84 %
Total non-earning assets	1,234,311			1,251,284			1,342,952		
Total Assets	**$ 17,220,002**			**$ 14,830,397**			**$ 13,466,269**		
Liabilities:									
Interest-bearing deposits:									
Interest-bearing deposit accounts	$ 5,206,131	$ 32,511	0.62 %	$ 4,769,482	$ 14,512	0.30 %	$ 4,009,566	$ 20,239	0.50 %
Money market deposit accounts	2,915,397	19,170	0.66	2,351,803	3,203	0.14	1,769,478	7,810	0.44
Savings deposits	1,927,122	5,019	0.26	1,754,972	1,886	0.11	1,534,069	3,641	0.24
Certificates and other time deposits	881,176	6,239	0.71	783,733	3,718	0.47	1,346,967	20,050	1.49
Total interest-bearing deposits	10,929,826	62,939	0.58	9,659,990	23,319	0.24	8,660,080	51,740	0.60
Borrowings	888,392	21,864	2.46	639,791	12,633	1.97	768,238	14,641	1.91
Total interest-bearing liabilities	11,818,218	84,803	0.72	10,299,781	35,952	0.35	9,428,318	66,381	0.70
Noninterest-bearing deposits	3,268,417			2,516,241			2,068,026		
Other liabilities	160,922			147,743			144,790		
Total Liabilities	**15,247,557**			**12,963,765**			**11,641,134**		
Stockholders' Equity	1,972,445			1,866,632			1,825,135		
Total Liabilities and Stockholders' Equity	**$ 17,220,002**	**84,803**		**$ 14,830,397**	**35,952**		**$ 13,466,269**	**66,381**	
Net Interest Income (FTE)		$ 544,793			$ 431,265			$ 399,093	
Net Interest Spread (FTE) [4]			**3.22 %**			**3.09 %**			**3.14 %**
Net Interest Margin (FTE):									
Interest Income (FTE) / Average Earning Assets			**3.94 %**			**3.44 %**			**3.84 %**
Interest Expense / Average Earning Assets			**0.53 %**			**0.26 %**			**0.55 %**
Net Interest Margin (FTE) [5]			**3.41 %**			**3.18 %**			**3.29 %**

[1] Average balance of securities is computed based on the average of the historical amortized cost balances without the effects of the fair value adjustment. Annualized amounts are computed using 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, 2021 and 2020. These totals equal $24,590, $20,585 and $16,966, 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.

[6] Commercial loans included $4.7 million, $106.6 million and $667.1 million of Paycheck Protection Program ("PPP") loans at December 31, 2022, 2021 and 2020, respectively.

NON-INTEREST INCOME

Non-interest income totaled $107.9 million in 2022, a decrease of $1.4 million, or 1.3 percent, from 2021. Customer related line items where decreases were experienced included net gains and fees on sales of loans of $9.6 million due to lower mortgage origination volume in 2022 compared to 2021, in addition to the $2.9 million gain on the portfolio mortgage loan sale that occurred in the second quarter of 2021, and in derivative hedge fees which decreased $0.5 million due to the rising interest rate environment. Offsetting these decreases were increases in customer related line items, which totaled $10.2 million, with the most significant increases experienced in service charges on deposit accounts, card payment fees, and fiduciary and wealth management fees, which were all influenced by the larger customer base from the Level One acquisition on April 1, 2022. Net realized gains on sales of available for sale securities decreased $4.5 million from 2021 and other income decreased $1.1 million in 2022, when compared to 2021, primarily as a result of a $1.9 million write-down of an equity investment in the third quarter of 2022. Finally, gains on life insurance benefits of $6.0 million increased $3.8 million from 2021 as a result of increased BOLI death benefits.

Non-interest income totaled $109.3 million in 2021, a decrease of $0.6 million, or 0.5 percent, from 2020. Customer related line items increased $2.6 million in 2021 compared to 2020 with the largest increase of $4.6 million attributable to fiduciary and wealth management fees of which $3.6 million was organic growth and $1.0 million resulted from the acquisition of Hoosier Trust Company. Additionally, service charges on deposit accounts increased $2.6 million due to both continued organic growth in the deposit customer base and a lesser impact from the COVID-19 pandemic on customer activity than in 2020. Finally, net gains and fees on sales of loans increased $1.4 million during 2021 as volume remained strong and was enhanced by a gain of $2.9 million from a $76.1 million portfolio mortgage loan sale. Offsetting these increases were decreases in customer related line items experienced in derivative hedge fees of $3.1 million and $2.9 million in card payment fees that resulted from the first full-year impact of the Durbin Amendment to the Dodd-Frank Act, which became effective for the Bank on July 1, 2020. Finally, the largest variances in non-customer related line items when comparing 2021 to 2020, were an increase in gains on life insurance benefits of $2.1 million resulting from BOLI death benefits and a decrease in net realized gains on sales of available for sale securities of $6.2 million.

Details of the Level One and Hoosier Trust Company acquisitions can be found in NOTE 2. ACQUISITIONS of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

NON-INTEREST EXPENSES

Non-interest expense totaled $355.7 million in 2022, an increase of $76.5 million, or 27.4 percent from 2021. Level One acquisition-related costs in 2022 totaled $16.5 million, of which $7.1 million was in professional and other outside services, $6.0 million was reflected in salaries and employee benefits, and $2.2 million in equipment expenses and outside data processing expenses. The acquisition-related expenses were primarily contract termination charges, core system conversion expenses, transaction advisory services, and employee retention bonuses and severance. Additionally, $20.0 million of post-acquisition non-interest expenses related to Level One operations were recorded during 2022, which primarily included $13.8 million in salaries and employee benefits and $3.1 million in net occupancy expenses. In addition to the salary and benefits expense increases related to the acquisition of Level One, merit and incentive expense increases contributed to the overall $39.9 million increase in salaries and employee benefits for 2022 compared to 2021. Increases in other expenses of $7.4 million, in 2022 over 2021, were driven by higher customer-related contingent losses, increased customer related travel and entertainment expenses, and increased mortgage servicing rights amortization. Equipment and outside data processing expenses increased $4.5 million and $3.4 million, respectively, as the Corporation's investment in customer-facing digital solutions in 2022, such as online account origination, resulted in increased software costs when compared to 2021. As the Bank continues to grow both organically and via acquisition, FDIC assessments have increased $4.0 million when compared to 2021. Finally, intangible asset amortization increased $2.5 million due to the core deposit intangible and non-compete amortization related to the Level One acquisition.

Non-interest expense totaled $279.2 million in 2021, an increase of $15.8 million, or 6.0 percent, over 2020. The largest contributing factor was an $11.1 million increase in salaries and employee benefits primarily due to higher salary and incentive expenses based upon current year financial results along with higher employee benefit costs primarily from rising health insurance costs. Additionally, other outside data processing fees increased $3.9 million in 2021, when compared to 2020, primarily due to increased loan processing expense and digital platform delivery expenses in 2021, due to the Corporation's deployment of online account origination technology. The Corporation also recorded reduced expense in 2020 from the sunsetting of a debit rewards program which contributed to the increase in outside data processing fees in 2021. Professional and other outside services increased $3.0 million in 2021 as projects that were delayed in 2020, due to the onset of the COVID-19 pandemic, were resumed. The Corporation also recorded $0.5 million of expense directly related to the acquisition of Level One which contributed to the increase in professional and other outside services in 2021 over 2020. Finally, other expenses increased $1.3 million primarily due to a $1.4 million increase in amortization of mortgage servicing rights as the mortgage servicing portfolio increased in 2021 resulting from a $76.1 million portfolio mortgage loan sale and an increase in held for sale loans being sold with servicing rights retained. The $3.4 million decline in net occupancy expenses in 2021 compared to 2020 was primarily driven by elevated expense in 2020, which included a charge of $3.8 million in net occupancy expenses related to the consolidation of seventeen banking centers.

Details of the Level One and Hoosier Trust Company acquisitions can be found in NOTE 2. ACQUISITIONS of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

INCOME TAXES

The Corporation’s federal statutory income tax rate for 2022 is 21 percent and its state tax rate varies from 0 to 9.5 percent depending on the state in which the subsidiary company operates. The Corporation’s effective tax rate, which was 13.1 percent in 2022 and 14.6 percent in 2021, is lower than the blended effective statutory federal and state rates primarily due to the Corporation’s income on tax-exempt securities and loans, income generated by the subsidiaries operating in a state with no state or local income tax, income tax credits generated from investments in affordable housing projects, and tax-exempt earnings from bank-owned life insurance contracts.

Income tax expense in 2022 was $33.6 million on pre-tax income of $255.7 million, or 13.1 percent. For 2021, income tax expense was $35.3 million on pre-tax income of $240.8 million, or 14.6 percent. The lower effective income tax rate in 2022 compared to 2021 was primarily driven by an increases in tax-exempt earnings and gains on life insurance, which are also non-taxable. The detailed reconciliation of federal statutory to actual tax expense is shown in NOTE 19. INCOME TAX of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

The Corporation’s tax asset, deferred and receivable increased from $35.6 million at December 31, 2021 to $111.2 million at December 31, 2022, which included the Corporation’s net deferred tax asset increasing from $24.3 million at December 31, 2021 to $109.5 million at December 31, 2022. The $85.2 million increase in the Corporation’s net deferred tax asset was primarily due to accounting for unrealized gains and losses on available for sale securities and an increase in CECL from the acquisition of Level One.

CAPITAL

Stockholders' Equity - CECL Adjustment
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.

Preferred Stock
As part of the Level One acquisition, the Corporation issued 10,000 shares of newly created 7.5 percent non-cumulative perpetual preferred stock, with a liquidation preference of $2,500 per share, in exchange for the outstanding Level One Series B preferred stock, and as part of that exchange, each outstanding Level One depositary share representing a 1/100th interest in a share of the Level One 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. As a result of the issuance, the Corporation had $25.0 million of outstanding preferred stock at December 31, 2022. During the twelve months ended December 31, 2022, the Corporation declared and paid dividends of $46.88 per share (equivalent to $0.4688 per depositary share) equal to $1.4 million. The Series A preferred stock qualifies as Tier 1 capital for purposes of the regulatory capital calculations.

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

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

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

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

Basel III requires the Corporation and the Bank to maintain the minimum capital and leverage ratios as defined in the regulation and as illustrated in the table below, which capital to risk-weighted asset ratios include a 2.5 percent capital conservation buffer. Under Basel III, in order to avoid limitations on capital distributions, including dividends, the Corporation must hold a 2.5 percent capital conservation buffer above the adequately capitalized CET1 to risk-weighted assets ratio (which buffer is reflected in the required ratios below). Under Basel III, the Corporation and Bank elected to opt-out of including accumulated other comprehensive income in regulatory capital. As of December 31, 2022, 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 December 31, 2022 and December 31, 2021 were as follows:

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

			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 %

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 December 31, 2022 and 2021, risk-weighted assets included $4.7 million and $106.6 million, respectively, of PPP loans at a zero risk weight.

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

As a result, effective with the April 1, 2022 consummation of the Level One merger, the Corporation began reflecting all of its trust preferred securities as tier 2 capital.

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

	December 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)	$ 2,034,770	$ 2,119,316	$ 1,912,571	$ 1,896,393
Adjust for Accumulated Other Comprehensive (Income) Loss [(1)]	239,151	237,094	(55,113)	(57,352)
Less: Preferred Stock	(25,125)	(125)	(125)	(125)
Add: Qualifying Capital Securities	25,000	—	46,606	—
Less: Disallowed Goodwill and Intangible Assets	(738,206)	(737,758)	(564,002)	(563,554)
Add: Modified CECL Transition Amount	23,028	23,028	34,542	34,542
Less: Disallowed Deferred Tax Assets	(337)	(345)	(239)	(219)
Total Tier 1 Capital (Regulatory)	1,558,281	1,641,210	1,374,240	1,309,685
Qualifying Subordinated Debentures	143,103	—	65,000	—
Allowance for Loan Losses Includible in Tier 2 Capital	180,870	181,086	143,241	143,673
Total Risk-Based Capital (Regulatory)	$ 1,882,254	$ 1,822,296	$ 1,582,481	$ 1,453,358
Net Risk-Weighted Assets (Regulatory)	$ 14,392,671	$ 14,410,136	$ 11,369,907	$ 11,404,902
Average Assets	$ 17,118,953	$ 17,092,008	$ 14,768,956	$ 14,749,855
Total Risk-Based Capital Ratio (Regulatory)	13.08 %	12.65 %	13.92 %	12.74 %
Tier 1 Capital to Risk-Weighted Assets	10.83 %	11.39 %	12.09 %	11.48 %
Tier 1 Capital to Average Assets	9.10 %	9.60 %	9.30 %	8.88 %
Common Equity Tier 1 Capital Ratio				
Total Tier 1 Capital (Regulatory)	$ 1,558,281	$ 1,641,210	$ 1,374,240	$ 1,309,685
Less: Qualified Capital Securities	(25,000)	—	(46,606)	—
Common Equity Tier 1 Capital (Regulatory)	$ 1,533,281	$ 1,641,210	$ 1,327,634	$ 1,309,685
Net Risk-Weighted Assets (Regulatory)	$ 14,392,671	$ 14,410,136	$ 11,369,907	$ 11,404,902
Common Equity Tier 1 Capital Ratio (Regulatory)	10.65 %	11.39 %	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.

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

The Corporation's tangible common equity measures are capital adequacy metrics that are meaningful to the Corporation, as well as analysts and investors, in assessing the Corporation's use of equity and in facilitating period-to-period and company-to-company comparisons. Tangible common equity to tangible assets ratio was 7.34 percent at December 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 $296.7 million at December 31, 2022. This decline in value is due to interest rate changes and not due to credit quality.

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

The tables within the “NON-GAAP FINANCIAL MEASURES” section of this Management’s Discussion and Analysis of Financial Condition and Results of Operations reconcile traditional GAAP measures to these non-GAAP financial measures at December 31, 2022 and December 31, 2021.

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 December 31, 2022, non-performing loans totaled $42.5 million, a decrease of $843,000 from December 31, 2021. Non-accrual loans totaled $42.3 million at December 31, 2022, a decrease of $738,000 from December 31, 2021.

Other real estate owned and repossessions, totaling $6.4 million at December 31, 2022, increased $5.9 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 individually evaluated 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)	December 31, 2022	December 31, 2021
Non-Performing Assets:		
Non-accrual loans	$ 42,324	$ 43,062
Renegotiated loans	224	329
Non-performing loans (NPL)	42,548	43,391
OREO and Repossessions	6,431	558
Non-performing assets (NPA)	48,979	43,949
Loans 90-days or more delinquent and still accruing	1,737	963
NPAs and loans 90-days or more delinquent	$ 50,716	$ 44,912

The non-accrual balances in the table above include troubled debt loan restructures totaling $11.1 million and $13.7 million as of December 31, 2022 and 2021, respectively.

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

(Dollars in Thousands)	December 31, 2022	December 31, 2021
Non-performing assets and loans 90-days or more delinquent:		
Commercial and industrial loans	$ 4,439	$ 8,273
Agricultural land, production and other loans to farmers	54	631
Real estate loans		
Construction	12	885
Commercial real estate, non-owner occupied	25,494	23,125
Commercial real estate, owner occupied	3,550	432
Residential	14,315	9,723
Home equity	2,742	1,840
Individual's loans for household and other personal expenditures	110	3
Non-performing assets and loans 90-days or more delinquent	$ 50,716	$ 44,912

PROVISION EXPENSE 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 economic forecasts. CECL also requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses, as well as credit quality and underwriting standards of an organization's portfolio. Additional details of the Corporation's methodology for measuring expected credit losses on loans is discussed in NOTE 5. LOANS AND ALLOWANCE FOR CREDIT LOSSES of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

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, 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 $2.8 billion, ending December 31, 2022 at $12.0 billion. The Level One acquisition added $1.6 billion to the total loan balance. Through the acquisition of Level One, the Bank acquired an additional $43.5 million of PPP loans as of the acquisition date. As of December 31, 2022, the Corporation had $4.7 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. Additional details of the Level One acquisition are included in NOTE 2. ACQUISITIONS of these Notes to Consolidated Financial Statements.

At December 31, 2022, the allowance for credit losses totaled $223.3 million, which represents an increase of $27.9 million from December 31, 2021. The acquisition of Level One added $16.6 million in allowance for credit losses on PCD loans and an additional $14.0 million in provision for credit losses on non-PCD loans. The allowance was offset by $2.7 million in net charge offs for the twelve months ended December 31, 2022. As a percentage of loans, the allowance for credit losses was 1.86 percent at December 31, 2022, compared to 2.11 percent at December 31, 2021 and 1.41 percent at December 31, 2020. The allowance for credit losses as a percentage of total loans less PPP loans was 1.86 percent as of December 31, 2022. The Corporation deems the current estimate for loan portfolio credit exposure as appropriate.

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

(Dollars in Thousands)	2022	2021	2020
Allowance for loan/credit losses:			
Balances, December 31, 2021	$ 195,397	$ 130,648	$ 80,284
Impact of adopting ASC 326	—	74,055	—
Balances, January 1, 2021 Post-ASC 326 adoption	—	204,703	—
Loans charged off	6,601	11,884	10,485
Recoveries on loans	3,927	2,578	2,176
Net charge-offs	2,674	9,306	8,309
Provision for loan/credit losses	—	—	58,673
CECL Day 1 non-PCD provision for credit losses	13,955	—	—
CECL Day 1 PCD ACL	16,599	—	—
Ending balance, December 31, 2021	$ 223,277	$ 195,397	$ 130,648
Ratio of net charge-offs during the period to average loans outstanding during the period	0.02 %	0.10 %	0.09 %
Ratio of allowance for credit losses - loans to non-accrual loans	527.5 %	453.8 %	212.5 %
Ratio of allowance for credit losses - loans to total loans outstanding	1.86 %	2.11 %	1.41 %

There was $16.8 million in provision for credit losses for the twelve months ended December 31, 2022, compared to no provision for credit losses for the twelve months ended December 31, 2021. The provision is entirely due to the acquisition of Level One.

Net charge-offs totaling $2.7 million, $9.3 million, and $8.3 million were recognized for the twelve months ended December 31, 2022, 2021, and 2020, respectively. For the twelve months ended December 31, 2022, there was one individual charge-off greater than $500,000 that totaled $2.8 million. For the twelve months ended December 31, 2022, there were two individual recoveries greater than $500,000 that totaled $1.2 million. For the twelve months ended December 31, 2021, there were four individual charge-offs greater than $500,000 that totaled $9.0 million. For the twelve months ended December 31, 2020, there were two individual charge-offs greater than $500,000 that totaled $7.3 million. For the twelve months ending December 31, 2021 and 2020, there were not any individual recoveries greater than $500,000. The distribution of the net charge-offs (recoveries) for the twelve months ended December 31, 2022, 2021, and 2020 are reflected in the following table.

(Dollars in Thousands)	December 31, 2022	December 31, 2021	December 31, 2020
Net charge-offs:			
Commercial and industrial loans	$ 347	$ 5,185	$ 7,794
Agricultural land, production and other farm loans	(4)	(60)	(2)
Real estate loans			
Construction	(863)	5	(101)
Commercial real estate, non-owner occupied	2,817	3,334	(148)
Commercial real estate, owner occupied	(896)	619	56
Residential	(4)	(283)	(160)
Home equity	526	157	487
Individuals loans for household and other personal expenditures	751	349	383
Public finance and other commercial loans	—	—	—
Total net charge-offs	$ 2,674	$ 9,306	$ 8,309

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.

GOODWILL

As of October 1, 2022 and October 1, 2021, the Corporation performed its annual goodwill impairment testing and in each valuation, the fair value exceeded the Corporation's carrying value; therefore, it was concluded goodwill was not impaired as of either date. The Level One acquisition on April 1, 2022 resulted in $166.6 million of goodwill. In addition, the Hoosier acquisition on April, 1, 2021 resulted in $1.5 million of additional goodwill during that year. Details regarding the Level One and Hoosier acquisitions are discussed in NOTE 2. ACQUISITIONS of these Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

LIQUIDITY

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

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

The principal source of asset-funded liquidity is investment securities classified as available for sale, the market values of which totaled $2.0 billion at December 31, 2022, a decrease of $367.9 million, or 15.7 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 $13.7 million at December 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 December 31, 2022, total borrowings from the FHLB were $823.7 million. The Bank has pledged certain mortgage loans and investments to the FHLB. The total available remaining borrowing capacity from the FHLB at December 31, 2022 was $617.6 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 December 31, 2022:

	Payments Due In		
(Dollars in Thousands)	**One Year or Less**	**Over One Year**	**Total**
Deposits without stated maturity	$ 13,105,937	$ —	$ 13,105,937
Certificates and other time deposits	1,148,819	127,989	1,276,808
Securities sold under repurchase agreements	167,413	—	167,413
Federal Home Loan Bank advances	460,097	363,577	823,674
Federal Funds Purchased	171,560	—	171,560
Subordinated debentures and term loans	1,183	150,115	151,298
Total	$ 15,055,009	$ 641,681	$ 15,696,690

For further details related to the Corporation's deposits and borrowings, see NOTE 10. DEPOSITS and NOTE 11. BORROWINGS of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

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

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

(Dollars in Thousands)	**December 31, 2022**
Amounts of Commitments:	
Loan commitments to extend credit	$ 4,950,724
Standby letters of credit	40,784
	$ 4,991,508

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

INTEREST SENSITIVITY AND DISCLOSURES ABOUT MARKET RISK

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

It is the objective of the Corporation to monitor and manage risk exposure to net interest income caused by changes in interest rates. It is the goal of the Corporation’s Asset/Liability management function to provide optimum and stable net interest income. To accomplish this, management uses two asset liability tools. GAP/Interest Rate Sensitivity Reports and Net Interest Income Simulation Modeling are constructed, presented and monitored quarterly. Management believes that the Corporation's liquidity and interest sensitivity position at December 31, 2022 remained adequate to meet the Corporation’s primary goal of achieving optimum interest margins while avoiding undue interest rate risk.

The following table presents the Corporation’s interest rate sensitivity analysis as of December 31, 2022.

(Dollars in Thousands)	December 31, 2022 1-180 Days	181-365 Days	1-5 Years	Beyond 5 Years	Total
Rate-Sensitive Assets:					
Interest-bearing deposits	$ 126,061	$ —	$ —	$ —	$ 126,061
Investment securities	97,873	105,060	997,075	3,063,780	4,263,788
Loans	6,512,836	482,345	2,985,969	2,031,838	12,012,988
Federal Home Loan Bank stock	—	—	38,525	—	38,525
Total rate-sensitive assets	$ 6,736,770	$ 587,405	$ 4,021,569	$ 5,095,618	$ 16,441,362
Rate-Sensitive Liabilities:					
Interest-bearing deposits	$ 9,880,678	$ 760,835	$ 118,931	$ 448,884	$ 11,209,328
Federal funds purchased	171,560	—	—	—	171,560
Securities sold under repurchase agreements	167,413	—	—	—	167,413
Federal Home Loan Bank advances	375,000	85,000	285,000	78,674	823,674
Subordinated debentures and term loans	50,039	—	—	101,259	151,298
Total rate-sensitive liabilities	$ 10,644,690	$ 845,835	$ 403,931	$ 628,817	$ 12,523,273
Interest rate sensitivity gap by period	$ (3,907,920)	$ (258,430)	$ 3,617,638	$ 4,466,801	
Cumulative rate sensitivity gap	$ (3,907,920)	$ (4,166,350)	$ (548,712)	$ 3,918,089	
Cumulative rate sensitivity gap ratio					
at December 31, 2022	63.3 %	63.7 %	95.4 %	131.3 %	
at December 31, 2021	60.3 %	63.8 %	85.0 %	134.0 %	

The Corporation had a cumulative negative gap of $4.2 billion in the one-year horizon at December 31, 2022, or 23.2 percent of total assets.

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

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

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

Results for rising 200 basis points and falling 100 basis points interest rate scenarios are listed below based upon the Corporation’s rate sensitive assets and liabilities at December 31, 2022. The change from the base case 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.

	December 31, 2022	December 31, 2021
Rising 200 basis points from base case	2.8%	1.4 %
Falling 100 basis points from base case	(2.3)%	(0.9)%

EARNING ASSETS

The following table presents the earning asset mix as of December 31, 2022 and December 31, 2021. Earning assets increased by $2.2 billion, or 15.1 percent, during the twelve months ended December 31, 2022. The April 1, 2022 acquisition of Level One contributed to increases in several categories. Additional details of the Level One acquisition can be found in NOTE 2. ACQUISITIONS of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

Interest bearing deposits decreased $348.1 million from December 31, 2021 to December 31, 2022 as excess liquidity was used to fund organic loan growth.

Total investment securities decreased $260.6 million from December 31, 2021. The net unrealized gain on the Corporation's available for sale investment securities portfolio of $75.9 million at December 31, 2021 changed to a net unrealized loss of $296.7 million as of December 31, 2022. The change to a net unrealized loss position was 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 4. INVESTMENT SECURITIES of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

The Corporation's total loan portfolio increased $2.8 million from December 31, 2021, with $1.6 billion of the increase resulting from the acquisition of Level One. At December 31, 2022, the Corporation's PPP loan portfolio, which included PPP loans from Level One, were primarily in the commercial and industrial loan class and totaled $4.7 million, a decrease of $145.4 million from the December 31, 2021 balance of $106.6 million plus the additional $43.5 million from Level One. Excluding the decline in PPP loans and the effect of Level One's acquired loans at acquisition date, the Corporation experienced organic loan growth of $1.3 billion, or 13.9 percent since December 31, 2021. All loan classes experienced increases from December 31, 2021, with the exception of agricultural land, production and other loans to farmers, and the largest increases were in residential real estate, commercial and industrial loans and construction real estate. Additional details of the changes in the Corporation's loan portfolio are discussed within NOTE 5. LOANS AND ALLOWANCE FOR CREDIT LOSSES of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K, 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 increased $9.8 million from December 31, 2021. The Level One acquisition contributed $11.7 million to the increase, which was offset by the repurchase of excess stock by the FHLB of $1.9 million.

(Dollars in Thousands)	December 31, 2022	December 31, 2021
Interest-bearing deposits	$ 126,061	$ 474,154
Investment securities available for sale	1,976,661	2,344,551
Investment securities held to maturity	2,287,127	2,179,802
Loans held for sale	9,094	11,187
Loans	12,003,894	9,241,861
Federal Home Loan Bank stock	38,525	28,736
	$ 16,441,362	$ 14,280,291

DEPOSITS AND BORROWINGS

The table below reflects the level of deposits and borrowed funds (repurchase agreements, FHLB advances, subordinated debentures and term loans) at December 31, 2022 and 2021.

(Dollars in Thousands)	December 31, 2022	December 31, 2021
Deposits:		
Demand deposits	$ 8,448,797	$ 7,704,190
Savings deposits	4,657,140	4,334,802
Certificates and other time deposits of $100,000 or more	742,539	273,379
Other certificates and time deposits	468,712	389,752
Brokered deposits	65,557	30,454
Total deposits	14,382,745	12,732,577
Federal funds purchased	171,560	—
Securities sold under repurchase agreements	167,413	181,577
Federal Home Loan Bank advances	823,674	334,055
Subordinated debentures and term loans	151,298	118,618
	$ 15,696,690	$ 13,366,827

Deposits increased $1.7 billion from December 31, 2021. The acquisition of Level One contributed $1.9 billion in deposits, resulting in an organic deposit decline of $280.6 million, or 2.2 percent. Additional details regarding the acquisition are discussed within NOTE 2. ACQUISITIONS of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K. The majority of the organic deposit decline was due to decreases in non-maturity deposits of $513.5 million, which was offset by increases in maturity deposits of $232.9 million when compared to December 31, 2021. Higher interest rates have resulted in customers migrating funds from non-maturity products into maturity time deposit products.

Federal Home Loan Bank advances increased $489.6 million compared to December 31, 2021 as the Corporation utilized liquidity from FHLB advances to fund organic loan growth. The Corporation has leveraged its capital position with FHLB advances, as well as repurchase agreements, which are pledged against acquired investment securities as collateral for the borrowings. Further discussion regarding FHLB advances is included in NOTE 11. BORROWINGS of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10K and Management's Discussion and Analysis of Financial Condition and Results of Operations under the heading "LIQUIDITY". Additionally, the interest rate risk is included as part of the Corporation's interest simulation discussed in this Management's Discussion and Analysis of Financial Condition and Results of Operations under the heading "INTEREST SENSITIVITY AND DISCLOSURES ABOUT MARKET RISK".

Subordinated debentures and term loans increased $32.7 million compared to December 31, 2021 due to the acquisition of Level One. Additional details regarding Level One's subordinated debentures and other borrownings are discussed within NOTE 2. ACQUISITIONS and NOTE 11. BORROWINGS of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10K.

INFLATION

The Corporation's financial statements are presented in accordance with GAAP, which requires the measurement of financial position and operating results primarily in terms of historic dollar values. Changes in the relative value of money due to inflation or recession are generally not considered. Historically, changes in interest rates have affected the financial condition of a financial institution to a far greater degree than changes in the inflation rate. However, with inflation reaching the highest level in decades, the impact of such on the financial institution is more direct. The most direct effect of inflation on the Corporation's operations is reflected in increased operating costs. The impact of inflation on operating costs in 2022 is reflected primarily in higher labor and vendor costs. During 2022, the Federal Reserve engaged in the tightening of monetary policy to address inflation by increasing the target federal funds rate by 425 basis points. The Corporation's sensitivity to interest rate changes are presented in this Management's Discussion and Analysis of Financial Condition and Results of Operations under the heading "INTEREST SENSITIVITY AND DISCLOSURES ABOUT MARKET RISK". This rapid increase in interest rates can impact consumer spending as goods and services cost more thereby causing deposit balances to decline. In addition, the Corporation's loan growth could moderate as customers respond to the impact of higher interest rates, high costs and a slowing economy.

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

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Report of Independent Registered Public Accounting Firm

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

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of First Merchants Corporation (the "Corporation") as of December 31, 2022 and 2021, the related consolidated statements of income, comprehensive income (loss), stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2022, and the related notes (collectively referred to as the "financial statements"). In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of December 31, 2022 and 2021, and the results of its operations and its cash flows for each of the years in the three-year period ended
December 31, 2022, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Corporation's internal control over financial reporting as of December 31, 2022, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 1, 2023, expressed an unqualified opinion.

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, the Corporation changed its method of accounting for credit losses effective January 1, 2021 due to the adoption of Accounting Standards Topic 326: Financial Instruments - Credit Losses.

Basis for Opinion

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

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

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

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

Allowance for Credit Losses

As described in Note 5 to the consolidated financial statements, the Corporation's allowance for credit losses (ACL) on loans was $223.3 million at December 31, 2022. The ACL is an estimate of current expected credit losses in the loan portfolio. The determination of the ACL requires significant judgment reflecting the Corporation's best estimate of expected future losses for the loan's entire contractual term adjusted for expected payments when appropriate.

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

How We Addressed the Matter in Our Audit

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

- Obtained an understanding of the Corporation's process for establishing the ACL, including the selection of models and the qualitative factor adjustments of the ACL
- Testing the design and operating effectiveness of internal controls, including those related to technology over the ACL, the establishment of qualitative adjustments for current and expected conditions, grading and risk classification of loans and establishment of specific reserves on individually evaluated loans and management's review controls over the ACL balance as a whole including attending internal Corporation Credit Policy Committee meetings and Audit Committee discussions and analysis
- Testing clerical and computational accuracy of the formulas within the calculation.
- Testing of completeness and accuracy of the information and reports utilized in the ACL, including reports used in management review controls over the ACL.
- Performed reviews of individual credit files to evaluate the reasonableness of loan credit risk ratings.
- Tested internally prepared loan reviews to evaluate the reasonableness of loan credit risk ratings
- Evaluated the qualitative adjustments to the ACL including assessing the basis for adjustments and the reasonableness of the significant assumptions
- Evaluating the forecast adjustment, including assessing that it is reasonable and supportable
- Tested the reasonableness of specific reserves on individually reviewed loans
- Evaluated credit quality trends in delinquencies, non-accruals, charge-offs and loan risk ratings
- Evaluated the overall reasonableness of the ACL and evaluated trends identified within peer groups.
- Identifying fields in the various loan systems that defined the loan pools and tested the design and operating effectiveness of internal controls surrounding the input and maintenance of those fields.

FORVIS, LLP (Formerly, BKD, LLP)

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

Indianapolis, Indiana
March 1, 2023

CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands, Except Share Data)	December 31, 2022	December 31, 2021
ASSETS		
Cash and due from banks	$ 122,594	$ 167,146
Interest-bearing deposits	126,061	474,154
Investment securities available for sale	1,976,661	2,344,551
Investment securities held to maturity, net of allowance for credit losses of $245 and $245 (fair value of $1,907,865 and $2,202,503)	2,287,127	2,179,802
Loans held for sale	9,094	11,187
Loans	12,003,894	9,241,861
Less: Allowance for credit losses - loans	(223,277)	(195,397)
Net loans	11,780,617	9,046,464
Premises and equipment	117,118	105,655
Federal Home Loan Bank stock	38,525	28,736
Interest receivable	85,070	57,187
Other intangibles	35,842	25,475
Goodwill	712,002	545,385
Cash surrender value of life insurance	308,311	291,041
Other real estate owned	6,431	558
Tax asset, deferred and receivable	111,222	35,641
Other assets	221,631	140,167
TOTAL ASSETS	$ 17,938,306	$ 15,453,149
LIABILITIES		
Deposits:		
Noninterest-bearing	$ 3,173,417	$ 2,709,646
Interest-bearing	11,209,328	10,022,931
Total Deposits	14,382,745	12,732,577
Borrowings:		
Federal funds purchased	171,560	—
Securities sold under repurchase agreements	167,413	181,577
Federal Home Loan Bank advances	823,674	334,055
Subordinated debentures and other borrowings	151,298	118,618
Total Borrowings	1,313,945	634,250
Interest payable	7,530	2,762
Other liabilities	199,316	170,989
Total Liabilities	15,903,536	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
Preferred Stock, Series A, no par value, $2,500 liquidation preference:		
Authorized - 10,000 non-cumulative perpetual shares		
Issued and outstanding - 10,000 non-cumulative perpetual shares	25,000	—
Common Stock, $0.125 stated value:		
Authorized - 100,000,000 shares		
Issued and outstanding - 59,170,583 and 53,410,411 shares	7,396	6,676
Additional paid-in capital	1,228,626	985,818
Retained earnings	1,012,774	864,839
Accumulated other comprehensive income (loss)	(239,151)	55,113
Total Stockholders' Equity	2,034,770	1,912,571
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 17,938,306	$ 15,453,149

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

(Dollars in Thousands, Except Share Data)	December 31, 2022	December 31, 2021	December 31, 2020
INTEREST INCOME			
Loans receivable:			
Taxable	$ 470,468	$ 338,009	$ 358,264
Tax-exempt	25,124	22,110	21,483
Investment securities:			
Taxable	38,354	29,951	24,440
Tax-exempt	67,381	55,331	42,341
Deposits with financial institutions	2,503	634	938
Federal Home Loan Bank stock	1,176	597	1,042
Total Interest Income	605,006	446,632	448,508
INTEREST EXPENSE			
Deposits	62,939	23,319	51,740
Federal funds purchased	1,302	5	120
Securities sold under repurchase agreements	1,136	314	604
Federal Home Loan Bank advances	11,417	5,672	6,973
Subordinated debentures and other borrowings	8,009	6,642	6,944
Total Interest Expense	84,803	35,952	66,381
NET INTEREST INCOME	520,203	410,680	382,127
Provision for credit losses - loans	16,755	—	58,673
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	503,448	410,680	323,454
NON-INTEREST INCOME			
Service charges on deposit accounts	28,371	23,571	20,999
Fiduciary and wealth management fees	29,688	28,362	23,747
Card payment fees	20,207	16,619	19,502
Net gains and fees on sales of loans	10,055	19,689	18,271
Derivative hedge fees	3,388	3,850	6,977
Other customer fees	1,935	1,490	1,497
Increase in cash surrender value of life insurance	5,210	4,873	5,040
Gains on life insurance benefits	5,964	2,187	100
Net realized gains on sales of available for sale securities	1,194	5,674	11,895
Other income	1,929	3,008	1,898
Total Non-Interest Income	107,941	109,323	109,926
NON-INTEREST EXPENSES			
Salaries and employee benefits	206,893	166,995	155,937
Net occupancy	26,211	23,326	26,756
Equipment	23,945	19,401	19,344
Marketing	7,708	5,762	6,609
Outside data processing fees	21,682	18,317	14,432
Printing and office supplies	1,588	1,217	1,304
Intangible asset amortization	8,275	5,747	5,987
FDIC assessments	10,235	6,243	5,804
Other real estate owned and foreclosure expenses	823	992	330
Professional and other outside services	21,642	11,913	8,901
Other expenses	26,713	19,300	18,001
Total Non-Interest Expenses	355,715	279,213	263,405
INCOME BEFORE INCOME TAX	255,674	240,790	169,975
Income tax expense	33,585	35,259	21,375
NET INCOME	222,089	205,531	148,600
Preferred stock dividends	1,406	—	—
NET INCOME AVAILABLE TO COMMON STOCKHOLDERS	$ 220,683	$ 205,531	$ 148,600
NET INCOME AVAILABLE TO COMMON STOCKHOLDERS PER SHARE DATA:			
Basic	$ 3.83	$ 3.82	$ 2.75
Diluted	$ 3.81	$ 3.81	$ 2.74

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Dollars in Thousands)	December 31, 2022	December 31, 2021	December 31, 2020
Net income	$ 222,089	$ 205,531	$ 148,600
Other comprehensive income (loss):			
Unrealized gains/losses on securities available-for-sale:			
Unrealized holding gain (loss) arising during the period	(371,299)	(30,042)	74,067
Reclassification adjustment for losses (gains) included in net income	(1,194)	(5,674)	(11,895)
Tax effect	78,224	7,502	(13,056)
Net of tax	(294,269)	(28,214)	49,116
Unrealized gain/loss on cash flow hedges:			
Unrealized holding gain (loss) arising during the period	479	138	(1,480)
Reclassification adjustment for losses (gains) included in net income	521	1,044	906
Tax effect	(210)	(248)	121
Net of tax	790	934	(453)
Defined benefit pension plans:			
Net gain (loss) arising during the period	(1,076)	9,482	(2,237)
Reclassification adjustment for amortization of prior service cost	82	84	84
Tax effect	209	(2,009)	452
Net of tax	(785)	7,557	(1,701)
Total other comprehensive income (loss), net of tax	(294,264)	(19,723)	46,962
Comprehensive income (loss)	$ (72,175)	$ 185,808	$ 195,562

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(Dollars in Thousands, Except Share Data)	Cumulative Preferred Stock		Non-Cumulative Preferred Stock		Common Stock		Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount	Shares	Amount	Shares	Amount				
Balances, December 31, 2019	**125**	**$ 125**	**—**	**$ —**	**55,368,482**	**$ 6,921**	**$ 1,054,997**	**$ 696,520**	**$ 27,874**	**$ 1,786,437**
Comprehensive income										
Net income	—	—	—	—	—	—	—	148,600	—	148,600
Other comprehensive income (loss), net of tax	—	—	—	—	—	—	—	—	46,962	46,962
Cash dividends on common stock ($1.04 per share)	—	—	—	—	—	—	—	(56,542)	—	(56,542)
Repurchases of common stock	—	—	—	—	(1,634,437)	(204)	(55,708)	—	—	(55,912)
Share-based compensation	—	—	—	—	128,292	16	4,584	—	—	4,600
Stock issued under employee benefit plans	—	—	—	—	25,423	3	636	—	—	639
Stock issued under dividend reinvestment and stock purchase plan	—	—	—	—	60,806	8	1,718	—	—	1,726
Stock options exercised	—	—	—	—	13,550	2	113	—	—	115
Restricted shares withheld for taxes	—	—	—	—	(39,757)	(6)	(974)	—	—	(980)
Balances, December 31, 2020	**125**	**$ 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)
Balance, January 1, 2021	**125**	**$ 125**	**—**	**$ —**	**53,922,359**	**$ 6,740**	**$ 1,005,366**	**$ 720,538**	**$ 74,836**	**$ 1,807,605**
Comprehensive income										
Net income	—	—	—	—	—	—	—	205,531	—	205,531
Other comprehensive income (loss), net of tax	—	—	—	—	—	—	—	—	(19,723)	(19,723)
Cash dividends on common stock ($1.13 per share)	—	—	—	—	—	—	—	(61,230)	—	(61,230)
Repurchases of common stock	—	—	—	—	(646,102)	(81)	(25,363)	—	—	(25,444)
Share-based compensation	—	—	—	—	94,510	12	4,750	—	—	4,762
Stock issued under employee benefit plans	—	—	—	—	16,507	2	603	—	—	605
Stock issued under dividend reinvestment and stock purchase plan	—	—	—	—	43,861	5	1,875	—	—	1,880
Stock options exercised	—	—	—	—	17,300	2	196	—	—	198
Restricted shares withheld for taxes	—	—	—	—	(38,024)	(4)	(1,609)	—	—	(1,613)
Balances, December 31, 2021	**125**	**$ 125**	**—**	**$ —**	**53,410,411**	**$ 6,676**	**$ 985,818**	**$ 864,839**	**$ 55,113**	**$ 1,912,571**
Comprehensive income										
Net income	—	—	—	—	—	—	—	222,089	—	222,089
Other comprehensive income (loss), net of tax	—	—	—	—	—	—	—	—	(294,264)	(294,264)
Cash dividends on preferred stock ($140.64 per share)	—	—	—	—	—	—	—	(1,406)	—	(1,406)
Cash dividends on common stock ($1.25 per share)	—	—	—	—	—	—	—	(72,748)	—	(72,748)
Issuance of stock related to acquisition	—	—	10,000	25,000	5,588,962	699	236,690	—	—	262,389
Share-based compensation	—	—	—	—	118,046	15	4,637	—	—	4,652
Stock issued under employee benefit plans	—	—	—	—	20,267	3	703	—	—	706
Stock issued under dividend reinvestment and stock purchase plan	—	—	—	—	50,559	6	2,050	—	—	2,056
Stock options exercised	—	—	—	—	22,000	3	355	—	—	358
Restricted shares withheld for taxes	—	—	—	—	(39,662)	(6)	(1,627)	—	—	(1,633)
Balances, December 31, 2022	**125**	**$ 125**	**10,000**	**$ 25,000**	**59,170,583**	**$ 7,396**	**$ 1,228,626**	**$ 1,012,774**	**$ (239,151)**	**$ 2,034,770**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in Thousands)	December 31, 2022	December 31, 2021	December 31, 2020
Cash Flow From Operating Activities:			
Net income	$ 222,089	$ 205,531	$ 148,600
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for credit losses	16,755	—	58,673
Depreciation and amortization	11,815	10,701	11,009
Change in deferred taxes	9,065	6,983	(9,735)
Share-based compensation	4,652	4,762	4,600
Loans originated for sale	(251,306)	(548,742)	(591,057)
Proceeds from sales of loans held for sale	265,723	557,744	611,945
Gains on sales of loans held for sale	(4,373)	(16,223)	(15,817)
Gains on sales of securities available for sale	(1,194)	(5,674)	(11,895)
Increase in cash surrender of life insurance	(5,210)	(4,873)	(5,040)
Gains on life insurance benefits	(5,964)	(2,187)	(100)
Change in interest receivable	(20,695)	(3,239)	(5,047)
Change in interest payable	3,703	(525)	(3,467)
Other adjustments	22,985	3,124	11,162
Net cash provided by operating activities	268,045	207,382	203,831
Cash Flows from Investing Activities:			
Net change in interest-bearing deposits	348,093	(81,849)	(274,042)
Purchases of:			
Securities available for sale	(451,203)	(931,368)	(613,117)
Securities held to maturity	(292,493)	(1,156,621)	(699,095)
Proceeds from sales of securities available for sale	606,873	181,333	231,391
Proceeds from maturities of:			
Securities available for sale	201,846	279,367	322,617
Securities held to maturity	154,689	227,255	273,229
Change in Federal Home Loan Bank stock	1,899	—	—
Net change in loans	(1,165,548)	(60,581)	(792,986)
Net cash and cash equivalents received (paid) in acquisition	137,780	(2,933)	—
Proceeds from the sale of other real estate owned	496	706	8,655
Proceeds from life insurance benefits	24,047	8,764	601
Proceeds from mortgage portfolio loan sale	—	78,159	—
Other adjustments	(12,920)	(11,678)	(9,278)
Net cash used in investing activities	(446,441)	(1,469,446)	(1,552,025)
Cash Flows from Financing Activities:			
Net change in :			
Demand and savings deposits	(513,496)	1,556,127	2,336,120
Certificates of deposit and other time deposits	232,874	(185,160)	(814,466)
Borrowings	1,818,389	45,542	573,757
Repayment of borrowings	(1,332,889)	(96,204)	(621,548)
Cash dividends on preferred stock	(1,406)	—	—
Cash dividends on common stock	(72,748)	(61,230)	(56,542)
Stock issued under employee benefit plans	706	605	639
Stock issued under dividend reinvestment and stock purchase plans	2,056	1,880	1,726
Stock options exercised	358	198	115
Repurchase of common stock	—	(25,444)	(55,912)
Net cash provided by financing activities	133,844	1,236,314	1,363,889
Net Change in Cash and Cash Equivalents	(44,552)	(25,750)	15,695
Cash and Cash Equivalents, January 1	167,146	192,896	177,201
Cash and Cash Equivalents, December 31	$ 122,594	$ 167,146	$ 192,896
Additional cash flow information:			
Interest paid	$ 80,035	$ 36,477	$ 69,848
Income tax paid	13,819	31,168	33,201
Loans transferred to other real estate owned	6,469	292	813
Fixed assets transferred to other real estate owned	1,490	6,384	262
Non-cash investing activities using trade date accounting	46,106	39,923	6,183
ROU assets obtained in exchange for new operating lease liabilities	10,516	2,700	1,601

CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED

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

	December 31, 2022	December 31, 2021	December 31, 2020
Fair value of assets acquired	$ 2,510,576	$ 4,041	$ —
Cash paid in acquisition	(79,324)	(3,225)	—
Less: Common stock issued	237,389	—	—
Less: Preferred stock issued	25,000	—	—
Liabilities assumed	$ 2,168,863	$ 816	$ —

See notes to consolidated financial statements.

NOTE 1

NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FINANCIAL STATEMENT PREPARATION
The accounting and reporting policies of the Corporation and the Bank, conform to accounting principles generally accepted in the United States of America and reporting practices followed by the banking industry. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. 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. Reclassifications have been made to prior financial statements to conform to the current financial statement presentation.

The Corporation is a financial holding company whose principal activity is the ownership and management of the Bank and operates in a single significant business segment. The Bank provides full banking services under an Indiana state-charter. Additionally, the Bank operates as First Merchants Private Wealth Advisors (a division of First Merchants Bank). The Bank generates commercial, mortgage, and consumer loans and receives deposits from customers located primarily in central and northern Indiana, northeast Illinois, central Ohio and southeast Michigan counties. The Bank’s loans are generally secured by specific items of collateral, including real property, consumer assets and business assets.

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

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

BUSINESS COMBINATIONS
Business combinations are accounted for under the acquisition method of accounting. Under the acquisition method, assets and liabilities of the business acquired are recorded at their estimated fair values as of the date of acquisition with any excess of the cost of the acquisition over the fair value of the net tangible and intangible assets acquired recorded as goodwill. Results of operations of the acquired business are included in the income statement from the date of acquisition. Details of the Corporation's acquisitions are included in NOTE 2. ACQUISITIONS of these Notes to Consolidated Financial Statements.

CASH AND CASH EQUIVALENTS
Cash on hand, cash items in process of collection and non-interest bearing cash held at various banks are included in cash and cash equivalents and have a maturity of less than three months. The Corporation maintains deposits with other financial institutions in amounts that exceed federal deposit insurance coverage. Management regularly evaluates the credit risk associated with the counterparties to these transactions and believes there is not significant credit risk on cash and cash equivalents.

INTEREST-BEARING DEPOSITS
Interest-bearing cash held at various banks and the Federal Reserve Bank and federal funds sold are included in interest-bearing deposits and have a maturity of less than three months. The Corporation maintains deposits with other financial institutions in amounts that exceed federal deposit insurance coverage. Management regularly evaluates the credit risk associated with the counterparties to these transactions and believes there is not significant credit risk on interest-bearing deposits.

INVESTMENT SECURITIES
Held to maturity securities are carried at amortized cost when the Corporation has the positive intent and ability to hold them until maturity. Available for sale securities are recorded at fair value on a recurring basis with the unrealized gains and losses, net of applicable income taxes, recorded in other comprehensive income (loss). Realized gains and losses are recorded in earnings and the prior fair value adjustments are reclassified within stockholders' equity. Gains and losses on sales of securities are determined on the specific-identification method. Amortization of premiums and accretion of discounts are amortized to their earliest call date and are recorded as interest income from securities. Details of the Corporation's investment securities portfolio are included in NOTE 4. INVESTMENT SECURITIES of these Notes to Consolidated Financial Statements.

ALLOWANCE FOR CREDIT LOSSES ON INVESTMENT SECURITIES AVAILABLE FOR SALE

For investment securities available for sale 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 income. 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, 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 are recognized in other comprehensive income (loss). Adjustments to the allowance for credit losses 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. Details of the Corporation's allowance for credit losses on investment securities available for sale are included in NOTE 4. INVESTMENT SECURITIES of these Notes to Consolidated Financial Statements.

ALLOWANCE FOR CREDIT LOSSES ON INVESTMENT SECURITIES HELD TO MATURITY ("ACL - INVESTMENTS")

The ACL - Investments 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 ACL - Investments when deemed uncollectible. Adjustments to the ACL - Investments are reported in the income statement as a component of the provision for credit loss. The Corporation measures expected credit losses on held to maturity debt securities 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. With regard to securities issued by states and municipalities and other investment securities held to maturity, management considers (1) issuer bond ratings, (2) the financial condition of the issuer, (3) historical loss rates for given bond ratings, 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 generally not been significant. An allowance for credit losses of $245,000 was recorded on 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. Details of the Corporation's ACL - Investments are included in NOTE 4. INVESTMENT SECURITIES of these Notes to Consolidated Financial Statements.

LOANS HELD FOR SALE

Loans originated and with an intent to sell are classified as held for sale and are carried at the principal amount outstanding. The carrying amount approximates fair value due to the short duration between origination and the date of sale.

LOANS

The Corporation's loan portfolio is carried at the principal amount outstanding, net of unearned income and principal charge-offs. Loan origination fees, net of direct loan origination costs, and commitment fees are deferred and amortized as an adjustment to yield over the life of the loan, or over the commitment period, as applicable. Interest income is accrued on the principal balances of loans. The accrual of interest is discontinued on a loan when, in management's opinion, the borrower may be unable to meet payments as they become due. When the interest accrual is discontinued, all unpaid accrued interest is reversed against earnings when considered uncollectible. Interest income accrued in the prior year, if any, is charged to the allowance for credit losses. Interest income is subsequently recognized only to the extent cash payments are received and the loan is returned to accruing status.

The Coronavirus Aid, Relief and Economic Security Act (the "CARES Act") established the Paycheck Protection Program ("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 December 31, 2022, the Corporation had $4.7 million of PPP loans 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.

Loan commitments and letters-of-credit generally have short-term, variable-rate features and contain clauses which limit the exposure to changes in customer credit quality. Accordingly, their carrying values, which are immaterial at the respective balance sheet dates, are reasonable estimates of fair value. Details of the Corporation's loan portfolio are included in NOTE 5. LOANS AND ALLOWANCE FOR CREDIT LOSSES of these Notes to Consolidated Financial Statements.

PURCHASED CREDIT DETERIORATED ("PCD") LOANS

The Corporation accounts for its acquisitions under ASC Topic 805, Business Combinations, which requires the use of the acquisition method of accounting. All identifiable assets acquired, including loans, are recorded at fair value. The fair value of acquired loans at the time of acquisition is based on a variety of factors including discounted expected cash flows, adjusted for estimated prepayments and credit losses. In accordance with ASC 326, Financial Instruments – Credit Losses, the fair value adjustment is recorded as a premium or discount to the unpaid principal balance of each acquired loan. Acquired loans are classified into two categories: loans with more than insignificant credit deterioration ("PCD") since origination, and loans with insignificant credit deterioration ("non-PCD") since origination. Factors considered when determining whether a loan has a more-than-insignificant deterioration since origination include, but are not limited to, the materiality of the credit, risk grade, delinquency, nonperforming status, bankruptcies, and other qualitative factors. The net premium or discount on PCD loans is adjusted by the Corporation's allowance for credit losses on loans, which is recorded at the time of acquisition. The remaining net premium or discount is accreted or amortized into interest income over the remaining life of the loan using an effective yield method. The net premium or discount on non-PCD loans, that includes credit and non-credit components, is accreted or amortized into interest income over the remaining life of the loan using an effective yield method. Additionally, non-PCD loans have an allowance for credit loss established on acquisition date, which is recognized in the current period provision for credit loss expense. In the event of prepayment, unamortized discounts or premiums on PCD and non-PCD loans are recognized in interest income.

ALLOWANCE FOR CREDIT LOSSES - LOANS ("ACL - Loans")

The ACL - Loans is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on loans over the contractual term. 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. Adjustments to the ACL - Loans are reported in the income statement as a component of provision for credit loss. The Corporation has made the accounting policy election to exclude accrued interest receivable on loans from the estimate of credit losses. Further information regarding the policies and methodology used to estimate the ACL - Loans is detailed in NOTE 5. LOANS AND ALLOWANCE FOR CREDIT LOSSES of these Notes to Consolidated Financial Statements.

PENSION

The Corporation has defined-benefit pension plans, including non-qualified plans for certain employees, former employees and former non-employee directors. In 2005, the Board of Directors of the Corporation approved the curtailment of the accumulation of defined benefits for future services provided by certain participants in the First Merchants Corporation Retirement Plan. No additional pension benefits have been earned by any employees who had not met certain requirements as of March 1, 2005. The benefits are based primarily on years of service and employees' pay near retirement. The Corporation's accounting policies related to pensions and other post retirement benefits reflect the guidance in ASC 715, *Compensation – Retirement Benefits.* The Corporation does not consolidate the assets and liabilities associated with the pension plan. Instead, the Corporation recognizes the funded status of the plan in the Consolidated Balance Sheets. The measurement of the funded status and the annual pension expense involves actuarial and economic assumptions. Various statistical and other factors, which attempt to anticipate future events, are used in calculating the expense and liabilities related to the plans. Key factors include assumptions on the expected rates of return on plan assets, discount rates and health care costs and trends. The Corporation considers market conditions, including changes in investment returns and interest rates in making these assumptions. The primary assumptions used in determining the Corporation's pension and post retirement benefit obligations and related expenses are presented in NOTE 18. PENSION AND OTHER POST RETIREMENT BENEFIT PLANS of these Notes to Consolidated Financial Statements.

PREMISES AND EQUIPMENT

Premises and equipment is carried at cost net of accumulated depreciation. Depreciation is computed using the straight-line and declining balance methods based on the estimated useful lives of the assets ranging from three to forty years. Maintenance and repairs are expensed as incurred, while major additions and improvements, which extend the useful life, are capitalized. Gains and losses on dispositions are included in current operations. Details of the Corporation's premises and equipment are included in NOTE 6. PREMISES AND EQUIPMENT of these Notes to Consolidated Financial Statements.

LEASES

The Corporation leases certain land and premises from third parties and all are classified as operating leases. Operating leases are included in Other Assets and Other Liabilities on the Corporation's Consolidated Balance Sheets and lease expense for lease payments is recognized on a straight-line basis over the lease term. Right of Use ("ROU") assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the term. An ROU asset represents the right to use the underlying asset for the lease term and also includes any direct costs and payments made prior to lease commencement and excludes lease incentives. When an implicit rate is not available, an incremental borrowing rate based on the information available at commencement date is used in determining the present value of the lease payments. A lease term may include an option to extend or terminate the lease when it is reasonably certain the option will be exercised. Short-term leases of twelve months or less are excluded from accounting guidance; as a result, the lease payments are recognized on a straight-line basis over the lease term and the leases are not reflected on the Corporation's Consolidated Balance Sheets. Renewal and termination options are considered when determining short-term leases. Leases are accounted for at the individual level. Details of the Corporation's leases are included in NOTE 9. LEASES of these Notes to Consolidated Financial Statements.

FEDERAL HOME LOAN BANK STOCK ("FHLB")

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

INTANGIBLE ASSETS

Intangible assets are acquired assets that lack physical substance but can be distinguished from goodwill because of contractual or other legal rights or because the asset is capable of being sold or exchanged either on its own or in combination with a related contract, asset or liability. Intangible assets with definite useful lives are subject to amortization and relate to core deposits, customer relationships and non-compete agreements. These intangible assets are being amortized on both the straight-line and accelerated basis over two to ten years. Intangible assets are periodically evaluated as to the recoverability of their carrying value. Details of the Corporation's other intangible assets are included in NOTE 8. OTHER INTANGIBLES of these Notes to Consolidated Financial Statements.

GOODWILL

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

Under ASC 350, the Corporation is required to evaluate goodwill for impairment on an annual basis, as well as on an interim basis, if events or changes indicate that the asset may be impaired, indicating that the carrying value may not be recoverable. The Corporation completed its most recent annual goodwill impairment test as of October 1, 2022 and concluded, based on current events and circumstances goodwill is not impaired. Details of the Corporation's goodwill are included in NOTE 7. GOODWILL of these Notes to Consolidated Financial Statements.

BANK OWNED LIFE INSURANCE ("BOLI")

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

OTHER REAL ESTATE OWNED ("OREO")

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

DERIVATIVE INSTRUMENTS

Derivative instruments, which are recorded as assets or liabilities in the Consolidated Balance Sheets, are carried at fair value of the derivatives and reflects the estimated amounts that would have been received to terminate these contracts at the reporting date based upon pricing or valuation models applied to current market information. As part of the asset/liability management program, the Corporation will utilize, from time to time, interest rate floors, caps or swaps to reduce its sensitivity to interest rate fluctuations. Changes in the fair values of derivatives are reported in the consolidated statements of operations or AOCI depending on the use of the derivative and whether the instrument qualifies for hedge accounting. The key criterion for hedge accounting is that the hedged relationship must be highly effective in achieving offsetting changes in those cash flows that are attributable to the hedged risk, both at inception of the hedge and on an ongoing basis.

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

The Corporation offers interest rate derivative products (e.g. interest rate swaps) to certain of its high-quality commercial borrowers. This product allows customers to enter into an agreement with the Corporation to swap their variable rate loan to a fixed rate. These derivative products are designed to reduce, eliminate or modify the risk of changes in the borrower's interest rate or market price risk. The extension of credit incurred through the execution of these derivative products is subject to the same approvals and rigorous underwriting standards as the related traditional credit product. The Corporation limits its risk exposure to these products by entering into a mirror-image, offsetting swap agreement with a separate, well-capitalized and rated counterparty previously approved by the Credit and Asset Liability Committee. By using these interest rate swap arrangements, the Corporation is also better insulated from the interest rate risk associated with underwriting fixed-rate loans. These derivative contracts are not designated against specific assets or liabilities under ASC 815, *Derivatives and Hedging*, and, therefore, do not qualify for hedge accounting. The derivatives are recorded on the balance sheet at fair value and changes in fair value of both the customer and the offsetting swap agreements are recorded (and essentially offset) in non-interest income. The fair value of the derivative instruments incorporates a consideration of credit risk (in accordance with ASC 820, *Fair Value Measurements and Disclosures*), resulting in some volatility in earnings each period. Details of the Corporation's derivative instruments are included in NOTE 12. DERIVATIVE FINANCIAL INSTRUMENTS of these Notes to Consolidated Financial Statements.

SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

Securities sold under repurchase agreements represent securities the Corporation routinely sells to certain treasury management customers and then repurchases these securities the next day. Securities sold under repurchase agreements are reflected as secured borrowings in the Corporation's Consolidated Balance Sheets at the amount of cash received in connection with each transaction. Details of the Corporation's repurchase agreements are included in NOTE 11. BORROWINGS of these Notes to Consolidated Financial Statements.

ALLOWANCE FOR CREDIT LOSSES - OFF-BALANCE SHEET CREDIT EXPOSURES

The allowance for credit losses on off-balance sheet credit exposures is a liability account representing expected credit losses over the contractual period for which the Corporation is exposed to credit risk resulting from a contractual obligation to extend credit. No allowance is recognized if the Corporation has the unconditional right to cancel the obligation. Off-balance sheet credit exposures primarily consist of amounts available under outstanding lines of credit and letters of credit. For the period of exposure, the estimate of expected credit losses considers both the likelihood that funding will occur and the amount expected to be funded over the estimated remaining life of the commitment or other off-balance sheet exposure. The likelihood and expected amount of funding are based on historical utilization rates. The amount of the allowance represents management's best estimate of expected credit losses on commitments expected to be funded over the contractual life of the commitment. The allowance for off-balance sheet credit exposures is adjusted through the income statement as a component of provision for credit loss. Further information regarding the policies and methodology used to estimate the allowance for credit losses on off-balance sheet credit exposures is detailed in NOTE 5. LOANS AND ALLOWANCE FOR CREDIT LOSSES of these Notes to Consolidated Financial Statements.

REVENUE RECOGNITION

Revenue recognition guidance establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts to provide goods or services to customers. The core principle requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration that it expects to be entitled to receive in exchange for those goods or services recognized as performance obligations are satisfied.

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

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

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

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

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

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

TRANSFERS OF FINANCIAL ASSETS

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

SHARE-BASED COMPENSATION
Stock option and restricted stock award plans are maintained by the Corporation. The compensation costs are recognized for stock options and restricted stock awards issued to employees and directors based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options. The market price of the Corporation's common stock at the date of grant is used for restricted stock awards. Compensation expense is recognized over the appropriate service period, which is generally two to five years. Details of the Corporation's share-based compensation are included in NOTE 17. SHARE-BASED COMPENSATION of these Notes to Consolidated Financial Statements.

INCOME TAX
Income tax expense in the Consolidated Statements of Income is the total of the current year income tax due or refundable and changes in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts from the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized. The Corporation files consolidated income tax returns with its subsidiaries. The Corporation is generally no longer subject to U.S. federal, state and local income tax examinations by tax authorities for tax years before 2019.

The Corporation accounts for income taxes under the provisions of ASC 740, *Income Taxes*, which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC 740 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. Per the guidance in ASC 740, the Corporation has not identified any uncertain tax positions that it believes should be recognized in the financial statements. The Corporation reviews income tax expense and the carrying value of deferred tax assets and liabilities quarterly; as new information becomes available, the balances are adjusted, if applicable. The Corporation's policy is to recognize interest and penalties related to unrecognized tax benefits, if any, as a component of income tax expense. Details of the Corporation's income taxes are included in NOTE 19. INCOME TAX of these Notes to Consolidated Financial Statements.

NET INCOME PER COMMON SHARE
Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of shares of common stock outstanding. Diluted net income per share is computed by dividing net income available to common shareholders by the weighted-average number of shares of common stock outstanding, plus the dilutive effect of outstanding stock options and non-vested restricted stock awards. Potentially dilutive common shares are excluded from the computation of diluted earnings per share in the periods where the effect would be antidilutive. Details of the Corporation's net income per share are included in NOTE 20. NET INCOME PER COMMON SHARE of these Notes to Consolidated Financial Statements.

RECENT ACCOUNTING CHANGES ADOPTED IN 2022

FASB Accounting Standards Updates - No. 2022-06 *- Reference Rate Reform (Topic 848) - Deferral of the Sunset Date of Topic 848*
Summary - The FASB issued ASU No. 2022-06, *Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848*, that extended the period of time preparers can utilize the reference rate reform relief guidance. The amendments in ASU No. 2022-06 were effective for all entities upon issuance.

In 2020, the FASB issued Accounting Standards Update No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, which provides optional guidance to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting.

The objective of the guidance in Topic 848 is to provide relief during the temporary transition period, so the FASB included a sunset provision within Topic 848 based on expectations of when the London Interbank Offered Rate (LIBOR) would cease being published. In 2021, the UK Financial Conduct Authority (FCA) delayed the intended cessation date of certain tenors of USD LIBOR to June 30, 2023.

To ensure the relief in Topic 848 covers the period of time during which a significant number of modifications may take place, the ASU defers the sunset date of Topic 848 from December 31, 2022, to December 31, 2024, after which entities will no longer be permitted to apply the relief in Topic 848.

NEW ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED

The Corporation continually monitors potential accounting pronouncement and SEC release changes. The following pronouncements and releases have been deemed to have the most applicability to the Corporation's financial statements and will be adopted after December 31, 2022:

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.

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

FASB Accounting Standards Updates - No. 2021-01 - *Reference Rate Reform (Topic 848): Scope*
Summary - The FASB has published ASU 2021-01, Reference Rate Reform. 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.

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

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 adopted this guidance on January 1, 2023, but adoption of the standard did not have a significant impact on the Corporation's financial statements or disclosures.

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

Troubled Debt Restructurings ("TDR") by Creditors That Have Adopted CECL
During the FASB's post-implementation review of the credit losses standard, including a May 2021 roundtable, investors and other stakeholders questioned the relevance of the TDR designation and the usefulness of disclosures about those modifications. Some noted that measurement of expected losses under the CECL model already incorporates losses realized from restructurings that are TDRs and that relevant information for investors would be better conveyed through enhanced disclosures about certain modifications.

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

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

For entities that have adopted the amendments in ASU 2016-13, the amendments in this Update are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. The Corporation adopted this Update on January 1, 2023.

NOTE 2

ACQUISITIONS

Level One Bancorp, Inc.

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

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

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

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

Under the acquisition method of accounting, the total purchase price is allocated to net tangible and intangible assets based on their current estimated fair values on the date of the acquisition. Based on preliminary valuations of the fair value of tangible and intangible assets acquired and liabilities assumed, which are based on assumptions that are subject to change based on the timing of the transaction, the purchase price for the Level One acquisition is detailed in the following table. If, prior to the end of the one-year measurement period for finalizing the purchase price allocation, information becomes available about facts and circumstances that existed as of the acquisition date, which would indicate adjustments are required to the purchase price allocation, such adjustments will be included in the purchase price allocation retrospectively.

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

The Corporation performed an evaluation of the loan portfolio in which there were loans that, at acquisition, had more than an insignificant amount of credit quality deterioration and were classified as purchased credit deteriorated ("PCD"). Details of the PCD loans are included in NOTE 5. LOANS AND ALLOWANCE FOR CREDIT LOSSES of these Notes to Consolidated Financial Statements.

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

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 due from banks	$ 292
Other assets	35
Other liabilities	(816)
Net tangible assets acquired	(489)
Customer relationship intangible	2,247
Goodwill	1,467
Purchase price	$ 3,225

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

The results of operations of Level One have been included in the Corporation's consolidated financial statements since the acquisition date. The following schedule includes pro forma results for the year ended December 31, 2022 and 2021 as if the Level One acquisition occurred as of the beginning of the periods presented. Pro forma financial information of the Hoosier acquisition is not included in the table below as it is deemed immaterial.

	Year Ended December 31, 2022	Year Ended December 31, 2021
Total revenue (net interest income plus other income)	$ 654,313	$ 621,946
Net Income	$ 221,631	$ 237,031
Net income available to common shareholders	$ 219,756	$ 235,156
Earnings per share:		
Basic	$ 3.72	$ 3.96
Diluted	$ 3.70	$ 3.95

The pro forma information includes adjustments for interest income on loans and investment securities, interest expense on deposits and borrowings, premises expense for the banking centers acquired and amortization of intangibles arising from the transaction and the related income tax effects. The pro forma information includes operating revenue of $56.9 million from Level One since the date of acquisition, and $12.5 million, net of tax, of acquisition-related expenses. The pro forma information is presented for information purposes only and is not indicative of the results of operations that actually would have been achieved had the acquisition been consummated as of January 1, 2022 and 2021, nor is it intended to be a projection of future results.

NOTE 3

CASH AND CASH EQUIVALENTS AND INTEREST-BEARING DEPOSITS

At December 31, 2022, the Corporation’s non-interest bearing deposits, included in cash and cash equivalents, and interest-bearing deposits held at other institutions exceeded the $250,000 federally insured limits by approximately $54,029,000. Each correspondent bank’s financial performance and market rating are reviewed on a quarterly basis to ensure the Corporation has deposits only at institutions providing minimal risk for those exceeding the federally insured limits.

Additionally, the Corporation had approximately $110,502,000 at the Federal Home Loan Bank and Federal Reserve Bank, which are government-sponsored entities not insured by the FDIC.

The Corporation has historically been required to maintain reserve funds in cash and/or on deposit with the Federal Reserve Bank. However, the Federal Reserve announced on March 15, 2020 that in order to support the flow of credit to households and businesses during the COVID-19 pandemic, reserve requirement ratios would move to zero effective March 26, 2020. The reserve requirement ratios remained at zero as of December 31, 2022.

NOTE 4

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 December 31, 2022 and December 31, 2021.

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

	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

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 December 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 December 31, 2022						
U.S. Government-sponsored agency securities	$ 392,246	$ —	$ 392,246	$ —	$ 69,147	$ 323,099
State and municipal	1,117,552	245	1,117,307	647	197,064	921,135
U.S. Government-sponsored mortgage-backed securities	776,074	—	776,074	—	113,915	662,159
Foreign investment	1,500	—	1,500	—	28	1,472
Total held to maturity	$ 2,287,372	$ 245	$ 2,287,127	$ 647	$ 380,154	$ 1,907,865

	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 of $29.5 million and $26.8 million is included in the Interest Receivable line on the Corporation's Consolidated Balance Sheets as of December 31, 2022 and December 31, 2021, respectively. 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 December 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 on investment securities remained unchanged at $245,000 as of December 31, 2022.

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 December 31, 2022, aggregated by credit quality indicator.

	Held to Maturity		
	State and municipal	Other	Total
Credit Rating:			
Aaa	$ 101,076	$ 70,583	$ 171,659
Aa1	162,728	—	162,728
Aa2	185,394	—	185,394
Aa3	135,227	—	135,227
A1	131,417	—	131,417
A2	10,168	—	10,168
A3	10,117	—	10,117
Non-rated	381,425	1,099,237	1,480,662
Total	$ 1,117,552	$ 1,169,820	$ 2,287,372

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

	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 December 31, 2022		
U.S. Treasury	$ 42	5
U.S. Government-sponsored agency securities	17,192	16
State and municipal	178,726	946
U.S. Government-sponsored mortgage-backed securities	100,358	177
Corporate obligations	807	10
Total investment securities available for sale	$ 297,125	1,154

	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.

	December 31, 2022	December 31, 2021
Investments available for sale reported at less than historical cost:		
Historical cost	$ 2,207,633	$ 658,858
Fair value	1,910,508	645,218
Gross unrealized losses	$ 297,125	$ 13,640
Percent of the Corporation's investments available for sale	96.7 %	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 December 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 December 31, 2022				
Due in one year or less	$ 2,822	$ 2,809	$ 13,697	$ 13,749
Due after one through five years	11,694	11,265	80,697	76,453
Due after five through ten years	169,729	161,211	147,078	135,027
Due after ten years	1,480,472	1,293,103	1,269,826	1,020,477
	1,664,717	1,468,388	1,511,298	1,245,706
U.S. Government-sponsored mortgage-backed securities	608,630	508,273	776,074	662,159
Total Investment Securities	$ 2,273,347	$ 1,976,661	$ 2,287,372	$ 1,907,865

	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

Securities with a carrying value of approximately $941.3 million and $873.2 million were pledged at December 31, 2022 and 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 $196.7 million at December 31, 2022 and $175.1 million at December 31, 2021.

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

	2022	2021	2020
Sales and redemptions of investment securities available for sale:			
Gross gains	$ 1,264	$ 6,502	$ 12,097
Gross losses	70	828	202
Net gains of sales and redemptions of investment securities available for sale	$ 1,194	$ 5,674	$ 11,895

NOTE 5

LOANS AND ALLOWANCE FOR CREDIT LOSSES

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 December 31, 2022 and December 31, 2021, were $9.1 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:

	December 31, 2022	December 31, 2021
Commercial and industrial loans	$ 3,437,126	$ 2,714,565
Agricultural land, production and other loans to farmers	241,793	246,442
Real estate loans:		
Construction	835,582	523,066
Commercial real estate, non-owner occupied	2,407,475	2,135,459
Commercial real estate, owner occupied	1,246,528	986,720
Residential	2,096,655	1,159,127
Home equity	630,632	523,754
Individuals' loans for household and other personal expenditures	175,211	146,092
Public finance and other commercial loans	932,892	806,636
Loans	$ 12,003,894	$ 9,241,861

The Level One acquisition added $1.6 billion in loans at acquisition, which included $43.5 million of Paycheck Protection Program ("PPP") loans. Additional details of the Level One acquisition are included in NOTE 2. ACQUISITIONS of these Notes to Consolidated Financial Statements. As of December 31, 2022, the Corporation had $4.7 million of PPP loans compared to the December 31, 2021 balance of $106.6 million. Additional details of the PPP are included in NOTE 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES of these Notes to Consolidated Financial Statements.

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.

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.

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 December 31, 2022 include PPP loans with an origination year of 2021 and 2020 of $4.6 million and $102,000, 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.

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

	December 31, 2021								
	Term Loans (amortized cost basis by origination year)								
	2021	2020	2019	2018	2017	Prior	Revolving loans amortized cost basis	Revolving loans converted 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

Total past due loans equaled $51.0 million as of December 31, 2022, a $16.3 million increase from the total of $34.7 million for December 31, 2021. At December 31, 2022, 30-59 Days Past Due loans totaled $29.1 million, an increase of $14.0 million from December 31, 2021. The primary increases were in commercial real estate owner and non-owner occupied and residential portfolios. At December 31, 2022, 60-89 Days Past Due loans totaled $5.9 million, a decrease of $1.1 million from December 31, 2021. The primary decreases were in commercial and industrial loans and residential portfolios, offset by an increase in the home equity portfolio. At December 31, 2022, 90 Days or More Past Due loans totaled $16.0 million, an increase of $3.3 million from December 31, 2021. The primary increases were in the commercial and industrial and residential portfolios, offset by a decrease in the non-owner occupied commercial real estate portfolio. The tables below show a past due aging of the Corporation's loan portfolio, by loan class, for the years indicated:

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

	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

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 the prior year, 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:

	December 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	$ 3,292	$ 481	$ 7,598	$ 263
Agricultural land, production and other loans to farmers	54	—	631	524
Real estate loans:				
Construction	12	—	685	—
Commercial real estate, non-owner occupied	19,374	280	23,029	6,133
Commercial real estate, owner occupied	3,550	2,784	411	—
Residential	13,685	702	9,153	2,160
Home equity	2,247	—	1,552	—
Individuals' loans for household and other personal expenditures	110	—	3	—
Loans	$ 42,324	$ 4,247	$ 43,062	$ 9,080

Interest income on non-accrual loans is recognized only to the extent that cash payments are received in excess of principal due. There was no interest income recognized on non-accrual loans for the twelve months ended December 31, 2022 and 2021, respectively.

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 tables present the amortized cost basis of collateral dependent loans by loan class and their respective collateral type, which are individually evaluated to determine expected credit losses, for December 31, 2022 and 2021. The increase in collateral dependent loans of $38.8 million between 2022 and 2021, which is mostly in the commercial and industrial loan class, is primarily related to loans from the acquisition of Level One.

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

	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

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 twelve months ended December 31, 2022 and 2021, respectively.

	Twelve Months Ended December 31, 2022				
	Pre- Modification Recorded Balance	Term Modification	Rate Modification	Post - Modification Recorded Balance	Number of Loans
Commercial and industrial loans	$ 61	$ 62	$ —	$ 62	1
Real estate loans:					
Residential	53	—	56	56	1
Total	$ 114	$ 62	$ 56	$ 118	2

	Twelve Months Ended December 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:						
Construction	16	—	16	—	16	1
Commercial real estate, non owner occupied	12,922	12,976			12,976	1
Commercial real estate, owner occupied	51	29	—	21	50	2
Residential	691	449	126	118	693	9
Total	$ 14,028	$ 13,802	$ 142	$ 139	$ 14,083	15

Loans in the commercial and industrial and residential loan classes made up 52.5 percent and 47.5 percent, respectively, of the post-modification balances of the troubled debt restructured loans that occurred during the twelve months ending December 31, 2022. During the twelve months ended December 31, 2021, commercial real estate, non owner occupied made up 92.1 percent of the post-modification balance of the troubled debt restructured loans that occurred in the period.

The following table summarizes troubled debt restructures that occurred during the twelve months ended December 31, 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. None of the troubled debt restructures that occurred during the twelve months ended December 31, 2022 resulted in a subsequent default that remained in default at period end.

	Twelve Months Ended December 31, 2021	
	Number of Loans	Recorded Balance
Real estate loans:		
Residential	5	$ 475
Total	5	$ 475

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 are not 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 $2.6 million and $4.2 million at December 31, 2022 and December 31, 2021, respectively.

Purchased Credit Deteriorated Loans

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

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

Allowance for Credit Losses on Loans

The Allowance for Credit Losses on Loans ("ACL - Loans") is a valuation account that is deducted from the amortized cost basis of loans to present the net amount expected to be collected on loans over the contractual term. The ACL - Loans is adjusted by the provision for credit losses, which is reported in earnings, and reduced by charge offs for loans, net 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 of a borrower 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").

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

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

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

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

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

The allowance for credit losses increased $27.9 million during the twelve months ended December 31, 2022. The allowance increased primarily due to $16.6 million of allowance for credit losses on PCD loans acquired in the Level One acquisition established through accounting adjustments on the acquisition date. In addition, a provision of $14.0 million was recorded to establish an allowance for credit losses on non-PCD loans acquired in the Level One acquisition. The allowance also had net charge offs of $2.7 million for the twelve months ended December, 31 2022. The following tables summarize changes in the allowance for credit losses by loan segment for the twelve months ended December 31, 2022 and 2021:

	Twelve Months Ended December 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	16,697	(20,425)	6,367	(2,639)	—
CECL Day 1 non-PCD provision for credit losses	2,957	5,539	871	4,588	13,955
CECL Day 1 PCD ACL	12,970	2,981	648	—	16,599
Recoveries on loans	872	1,096	863	1,096	3,927
Loans charged off	(1,215)	(3,017)	—	(2,369)	(6,601)
Balances. December 31, 2022	$ 102,216	$ 46,839	$ 28,955	$ 45,267	$ 223,277

	Twelve Months Ended December 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	7,921	(11,093)	1,122	—	—	2,050	—
Recoveries on loans	724	580	1	—	—	1,273	2,578
Loans charged off	(5,849)	(4,533)	(6)	—	—	(1,496)	(11,884)
Balances. December 31, 2021	$ 69,935	$ 60,665	$ 20,206	$ —	$ —	$ 44,591	$ 195,397

Allowance for Loan Losses under prior GAAP ("Incurred Loss Model")

Prior to the adoption of ASU No. 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* on January 1, 2021, the Corporation maintained an allowance for loan losses in accordance with the incurred loss model as disclosed in the Corporation's 2020 Annual Report on Form 10-K.

The following table summarizes changes in the allowance for loan losses by loan segment for the twelve months ended December 31, 2020:

	Twelve Months Ended December 31, 2020				
	Commercial	Commercial Real Estate	Consumer	Residential	Total
Allowance for loan losses:					
Balances, December 31, 2019	$ 32,902	$ 28,778	$ 4,035	$ 14,569	$ 80,284
Provision for losses	21,930	22,174	5,996	8,573	58,673
Recoveries on loans	819	431	260	666	2,176
Loans charged off	(8,536)	(313)	(643)	(993)	(10,485)
Balances, December 31, 2020	$ 47,115	$ 51,070	$ 9,648	$ 22,815	$ 130,648

The following table summarizes the average recorded investment and interest income recognized by loan class for the period indicated:

	Twelve Months Ended December 31, 2020	
	Average Recorded Investment	Interest Income Recognized
Impaired loans with no related allowance:		
Commercial and industrial loans	$ 991	$ —
Real estate Loans:		
Commercial real estate, non-owner occupied	4,850	145
Commercial real estate, owner occupied	1,429	—
Residential	840	3
Individuals' loans for household and other personal expenditures	3	—
Total	$ 8,113	$ 148
Impaired loans with related allowance:		
Commercial and industrial loans	$ 267	$ —
Agricultural land, production and other loans to farmers	589	—
Real estate Loans:		
Commercial real estate, non-owner occupied	44,119	—
Commercial real estate, owner occupied	1,447	—
Residential	2,108	70
Home equity	473	14
Total	$ 49,003	$ 84
Total Impaired Loans	$ 57,116	$ 232

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 concerns 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:

	December 31, 2022	December 31, 2021
Amounts of commitments:		
Loan commitments to extend credit	$ 4,950,724	$ 3,917,215
Standby letters of credit	$ 40,784	$ 34,613

The adoption of the CECL methodology for measuring credit losses on January 1, 2021, as discussed more fully in the Allowance for Credit Loss on Loans section of this Note, and in NOTE 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES of these Notes to Consolidated Financial Statements, increased the opening balance of our accrual for off-balance sheet commitments at adoption by $20.5 million. The Level One acquisition was responsible for an additional $2.8 million of provision for credit losses associated with off-balance sheet commitments, resulting in a total allowance for credit losses on off-balance sheet commitments of $23.3 million. This reserve level remains appropriate and is reported in Other Liabilities as of December 31, 2022 in the Consolidated Balance Sheets.

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

	2022	2021
Balance, January 1	$ 20,500	$ 20,500
CECL Day 1 unfunded commitments provision for credit losses	2,800	—
Balance, December 31	$ 23,300	$ 20,500

NOTE 6

PREMISES AND EQUIPMENT

The following table summarizes the Corporation's premises and equipment as of December 31, 2022 and 2021:

	2022	2021
Cost at December 31:		
Land	$ 25,299	$ 22,349
Buildings and Leasehold Improvements	174,895	160,410
Equipment	144,524	129,885
Total Cost	344,718	312,644
Accumulated Depreciation and Amortization	(227,600)	(206,989)
Net	$ 117,118	$ 105,655

The Level One acquisition on April 1, 2022 resulted in additions to premises and equipment of $11.8 million. Details regarding the acquisition are discussed in NOTE 2. ACQUISITIONS of these Notes to Consolidated Financial Statements.

The Corporation is committed under various non-cancelable lease contracts for certain subsidiary office facilities and equipment. Details regarding the lease contracts are discussed in NOTE 9. LEASES of these Notes to Consolidated Financial Statements.

NOTE 7

GOODWILL

Goodwill is recorded on the acquisition date of an entity. The Corporation has one year after the acquisition date, the measurement period, to record subsequent adjustments to goodwill for provisional amounts recorded at the acquisition date. The Level One acquisition on April 1, 2022 resulted in $166.6 million of goodwill. In addition, the Hoosier acquisition on April, 1, 2021 resulted in $1.5 million of goodwill. Details regarding the Level One and Hoosier acquisitions are discussed in NOTE 2. ACQUISITIONS of these Notes to Consolidated Financial Statements.

As of October 1, 2022 and October 1, 2021, the Corporation performed its annual goodwill impairment testing and in each valuation, the fair value exceeded the Corporation's carrying value; therefore, it was concluded goodwill was not impaired as of either date.

For additional details related to impairment testing, see the "GOODWILL" section of Management's Discussion and Analysis of Financial Condition and Results of Operations included as Item 7 of this Annual Report on Form 10-K.

	2022	2021
Balance, January 1	$ 545,385	$ 543,918
Goodwill acquired	166,617	1,467
Balance, December 31	$ 712,002	$ 545,385

NOTE 8

OTHER INTANGIBLES

Core deposit intangibles and other intangibles are recorded on the acquisition date of an entity. The Corporation has one year after the acquisition date, the measurement period, to record subsequent adjustments to these intangibles for provisional amounts recorded at the acquisition date. The Level One acquisition on April 1, 2022 resulted in a core deposit intangible of $17.2 million and other intangibles, consisting of non-compete intangibles, of $1.4 million. In addition, the Hoosier acquisition on April 1, 2021 resulted in a customer relationship intangible of $2.2 million. Details regarding the Level One and Hoosier acquisitions are discussed in NOTE 2. ACQUISITIONS of these Notes to Consolidated Financial Statements.

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

	2022	2021
Gross carrying amount	$ 104,643	$ 102,396
Other intangibles acquired	18,642	2,247
Accumulated amortization	(87,443)	(79,168)
Total core deposit and other intangibles	$ 35,842	$ 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 to ten years. Amortization expense for the years ended December 31, 2022, 2021 and 2020, was $8.3 million, $5.7 million and $6.0 million, respectively.

Estimated future amortization expense is summarized as follows:

	Amortization Expense
2023	$ 8,742
2024	7,271
2025	6,028
2026	4,910
2027	3,603
After 2027	5,288
	$ 35,842

NOTE 9

LEASES

The Corporation enters into leases for certain retail branches, office space, land and equipment. Operating leases are included in other assets and the lease liability is included in other liabilities in our balance sheets. The Corporation does not have any finance leases.

Right-of-use (ROU) assets represent the Corporation's right to use an underlying asset for the lease term and lease liabilities represent the Corporation's obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. The Corporation uses its incremental borrowing rate at commencement date in determining the present value of lease payments when the rate implicit in a lease is not known. The Corporation's incremental borrowing rate is based on the FHLB amortizing advance rate, adjusted for the lease term and other factors. The depreciable life of assets and leasehold improvements are limited by the expected lease term, unless there is a transfer of title or purchase option reasonably certain of exercise.

The Corporation's leases are generally for periods of five to twenty years with various renewal options. The exercise of such lease renewal options is not included in the present value of lease obligations unless it is reasonably certain that the option will be exercised. The Corporation has lease agreements which contain both lease and non-lease components such as common area maintenance charges, real estate taxes, and insurance. Non-lease components are not included in the measurement of the lease liability and are recognized in expense when incurred. The Corporation has elected not to recognize short-term leases, with original lease terms of twelve months or less, on the Corporation's balance sheet. Certain of the Corporation's lease agreements include rental payments adjusted periodically for inflation. The Corporation's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

Supplemental balance sheet information related to leases is presented in the table below as of December 31, 2022 and 2021:

	2022	2021
Operating lease assets	$ 23,619	$ 17,818
Total lease assets	$ 23,619	$ 17,818
Operating lease liabilities	$ 25,316	$ 19,619
Total lease liabilities	$ 25,316	$ 19,619
Weighted average remaining lease term (years)		
Operating leases	6.5	7.0
Weighted average discount rate		
Operating leases	3.1 %	3.1 %

The table below presents the components of lease expense for the years ended December 31, 2022, 2021, and 2020:

	2022	2021	2020
Lease Cost:			
Operating lease cost	$ 5,233	$ 3,710	$ 3,724
Short-term lease cost	470	345	247
Variable lease cost	1,073	980	842
Sublease income	$ (23)	$ (33)	$ (43)
Total lease cost	$ 6,753	$ 5,002	$ 4,770

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

Maturity of lease liabilities	**Operating Leases**
2023	$ 5,610
2024	5,056
2025	4,673
2026	3,265
2027	2,468
2028 and after	7,068
Total lease payments	$ 28,140
Less: Present value discount	2,824
Present value of lease liabilities	$ 25,316

Other Information	**Twelve Months Ended December 31, 2022**	**Twelve Months Ended December 31, 2021**	**Twelve Months Ended December 31, 2020**
Cash paid for amounts included in the measurement of lease liabilities			
Operating cash flows from operating leases	$ 5,329	$ 3,773	$ 3,629
ROU assets obtained in exchange for new operating lease liabilities	$ 10,516	$ 2,700	$ 1,601

NOTE 10

DEPOSITS

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

	December 31, 2022	December 31, 2021
Demand deposits	$ 8,448,797	$ 7,704,190
Savings deposits	4,657,140	4,334,802
Certificates and other time deposits of $100,000 or more	742,539	273,379
Other certificates and time deposits	468,712	389,752
Brokered deposits	65,557	30,454
Total deposits	$ 14,382,745	$ 12,732,577

Deposits increased $1.7 billion from December 31, 2021. The Level One acquisition contributed $1.9 billion of deposits as of the acquisition date, resulting in an organic deposit decline of $280.6 million, or 2.2 percent. Details regarding the acquisition are discussed in NOTE 2. ACQUISITIONS of these Notes to Consolidated Financial Statements. The majority of the organic deposit decline was due to decreases in non-maturity deposits of $513.5 million, which was offset by increases in maturity deposits of $232.9 million when compared to December 31, 2021. Higher interest rates have resulted in customers migrating funds from non-maturity products into maturity time deposit products. At December 31, 2022 and 2021, deposits exceeding the FDIC's Standard Maximum Deposit Insurance Amount of $250,000 were $8.1 billion and $7.6 billion, respectively.

At December 31, 2022, the contractual maturities of time deposits are summarized as follows:

	Certificates and Other Time Deposits
2023	$ 1,148,819
2024	96,897
2025	14,661
2026	9,819
2027	6,043
After 2027	569
	$ 1,276,808

NOTE 11

BORROWINGS

The following table summarizes the Corporation's borrowings as of December 31, 2022 and 2021:

	December 31, 2022	December 31, 2021
Federal funds purchased	$ 171,560	$ —
Securities sold under repurchase agreements	$ 167,413	$ 181,577
Federal Home Loan Bank advances	823,674	334,055
Subordinated debentures and other borrowings	151,298	118,618
Total Borrowings	$ 1,313,945	$ 634,250

The Level One acquisition contributed to the increase in borrowings due to the assumption of $160.0 million of Federal Home Loan Bank advances and $32.6 million of subordinated debentures. Additional details regarding the acquisition are discussed within NOTE 2. ACQUISITIONS of the these Notes to Consolidated Financial Statements. Securities sold under repurchase agreements consist of obligations of the Bank to other parties and are secured by U.S. Government-Sponsored Enterprise obligations. The maximum amount of outstanding agreements at any month-end during 2022 and 2021 totaled $218.9 million and $199.1 million, respectively, and the average of such agreements totaled $185.1 million and $173.8 million during 2022 and 2021, respectively.

Transfers Accounted For As Secured Borrowings

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

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

	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

Contractual maturities of borrowings as of December 31, 2022, are as follows:

Maturities in Years Ending December 31:	Federal Funds Purchased	Securities Sold Under Repurchase Agreements	Federal Home Loan Bank Advances	Subordinated Debentures and Term Loans
2023	$ 171,560	$ 167,413	$ 460,097	$ 1,183
2024	—	—	60,097	—
2025	—	—	25,097	—
2026	—	—	97	—
2027	—	—	200,096	—
After 2027	—	—	78,190	152,012
ASC 805 fair value adjustments at acquisition	—	—	—	(1,897)
	$ 171,560	$ 167,413	$ 823,674	$ 151,298

The terms of a security agreement with the FHLB require the Corporation to pledge, as collateral for advances, qualifying first mortgage loans, investment securities and multi-family loans in an amount equal to at least 145 percent of these advances depending on the type of collateral pledged. At December 31, 2022, the outstanding FHLB advances had interest rates from 0.35 to 4.92 percent and are subject to restrictions or penalties in the event of prepayment. The total available remaining borrowing capacity from the FHLB at December 31, 2022, was $617.6 million. As of December 31, 2022, the Corporation had $95.0 million of putable advances with the FHLB.

Subordinated Debentures and Term Loans. As of December 31, 2022 and 2021, subordinated debentures and term loans totaled $151.3 million and $118.6 million, respectively.

- *First Merchants Capital Trust II ("FMC Trust II").* At December 31, 2022 and 2021, the Corporation had $41.7 million of subordinated debentures issued to FMC Trust II, a wholly-owned statutory business trust. FMC Trust II was formed in July 2007 for purposes of issuing trust preferred securities to investors. At that time, it simultaneously issued and sold its common securities to the Corporation, which constituted all of the issued and outstanding common securities of FMC Trust II. The subordinated debentures, which were purchased with the proceeds of the sale of the trust's capital securities, are the sole assets of FMC Trust II and are fully and unconditionally guaranteed by the Corporation. The subordinated debentures and the trust preferred securities bear interest at a variable rate equal to three-month LIBOR plus 1.56 percent, with interest and dividend payments being made on a quarterly basis. The interest rate at December 31, 2022 and 2021 was 6.33 percent and 1.76 percent, respectively. The trust preferred securities are currently redeemable at par and without penalty, subject to the Corporation having first redeemed the related subordinated debentures, with the prior approval of the Federal Reserve if then required under applicable capital guidelines or policies. The trust preferred securities and the subordinated debentures of FMC Trust II will mature on September 15, 2037. The Corporation continues to hold all outstanding common securities of FMC Trust II. See "Replacement of LIBOR Benchmark" below for information relating to changes impacting the interest and dividends payable upon the trust preferred securities and subordinated debentures after June 30, 2023.

- *Ameriana Capital Trust I.* At December 31, 2022 and 2021, the Corporation had $10.3 million of subordinated debentures issued to Ameriana Capital Trust I. On December 31, 2015, the Corporation acquired Ameriana Capital Trust I in conjunction with its acquisition of Ameriana Bancorp, Inc. With a trust preferred structure substantially similar to that described above for FMC Trust II, the subordinated debentures held by Ameriana Capital Trust I were purchased with the proceeds of the sale of the trust's capital securities. The subordinated debentures and the trust preferred securities bear interest at a variable rate equal to three-month LIBOR plus 1.50 percent, with interest and dividend payments being made on a quarterly basis. The interest rate at December 31, 2022 and 2021 was 6.27 percent and 1.70 percent, respectively. The trust preferred securities of Ameriana Capital Trust I are currently redeemable at par and without penalty, subject to the Corporation having first redeemed the related subordinated debentures, with the prior approval of the Federal Reserve if then required under applicable capital guidelines or policies. The trust preferred securities and the subordinated debentures of Ameriana Capital Trust I will mature in March 2036. The Corporation continues to hold all of the outstanding common securities of Ameriana Capital Trust I. See "Replacement of LIBOR Benchmark" below for information relating to changes impacting the interest and dividends payable upon the trust preferred securities and subordinated debentures after June 30, 2023.

- *First Merchants Senior Notes and Subordinated Notes.* On November 1, 2013, the Corporation completed the private issuance and sale to four institutional investors of an aggregate of $70 million of debt comprised of (a) 5.00 percent Fixed-to-Floating Rate Senior Notes due 2028 in the aggregate principal amount of $5 million (the "Senior Debt") and (b) 6.75 percent Fixed-to-Floating Rate Subordinated Notes due 2028 in the aggregate principal amount of $65 million (the "Subordinated Debt"). The interest rate on the Senior Debt and Subordinated Debt remains fixed for the first ten (10) years and will become floating thereafter. Once the rates convert to floating on October 30, 2023, the Senior Debt will have an annual floating rate equal to the three-month forward-looking term Secured Overnight Financing Rate, as administered by CME Group Benchmark Administration Limited ("CME Term SOFR"), adjusted by the relevant spread adjustment (which is 0.26161 percent for a three-month tenor), plus 2.345 percent. The Subordinated Debt will have an annual floating rate equal to the three-month CME Term SOFR, plus the 0.26161 percent spread adjustment, plus 4.095 percent. See "Replacement of LIBOR Benchmark" below for additional information relating to the transition from LIBOR to the Secured Overnight Financing Rate. The Corporation has an option to redeem the Subordinated Debt in whole or in part at a redemption price equal to 100 percent of the principal amount of the redeemed Subordinated Notes, plus accrued and unpaid interest to the date of the redemption. The option of redemption is subject to the approval of the Federal Reserve Board. The Corporation has an option to redeem the Senior Debt in whole or in part at a redemption price equal to 100 percent of the principal amount of the redeemed Senior Notes, plus accrued and unpaid interest to the date of the redemption; provided, however, that no Subordinated Notes (as defined in the Issuing and Paying Agency Agreement) may remain outstanding subsequent to any early redemption of Senior Notes. The Subordinated Debt and the Senior Debt options to redeem begin with the interest payment date on October 30, 2023, or on any scheduled interest payment date thereafter. The Senior Debt agreement contains certain customary representations and warranties and financial and negative covenants. As of December 31, 2022 and 2021 the Corporation was in compliance with these covenants.

- *Level One Subordinated Notes.* On April 1, 2022, the Corporation assumed certain subordinated notes in conjunction with its acquisition of Level One. The $30.0 million of subordinated notes issued on December 18, 2019 bear a fixed interest rate of 4.75 percent per annum, payable semiannually through December 18, 2024. The notes will bear a floating interest rate equal to the of three-month CME Term SOFR plus 3.11 percent, payable quarterly, after December 18, 2024 through maturity. The notes mature on December 18, 2029, and the Corporation has the option to redeem any or all of the subordinated notes without premium or penalty any time after December 18, 2024 or upon the occurrence of a Tier 2 capital event or tax event.

- *Other Borrowings.* On April 1, 2022, the Corporation acquired a secured borrowing in conjunction with its acquisition of Level One. The secured borrowing related to a certain loan participation sold by Level One that did not qualify for sales treatment. The secured borrowing bears a fixed rate of 1.00 percent and had a balance of $1.2 million as of December 31, 2022.

Replacement of LIBOR Benchmark

On March 15, 2022, the Adjustable Interest Rate (LIBOR) Act (the "LIBOR Act") was signed into law in response to the U.K. Financial Conduct Authority, the authority regulating LIBOR, announcing that, among other things, the 1-month, 3-month, 6-month and 12-month U.S. dollar LIBOR settings would cease to exist after June 30, 2023. The LIBOR Act establishes a uniform national approach for replacing LIBOR in legacy contracts that do not provide for the use of a clearly defined replacement benchmark rate. As directed by the LIBOR Act, on December 16, 2022, the Federal Reserve issued a final rule setting forth regulations to implement the LIBOR Act, including establishing benchmark replacements based on the Secured Overnight Funding Rate ("SOFR") for contracts governed by U.S. law that reference certain tenors of U.S. dollar LIBOR (the overnight and one-, three-, six-, and 12-month tenors) and that do not have terms that provide for the use of a clearly defined and practicable replacement benchmark rate ("fallback provisions") following the first London banking day after June 30, 2023.

As the subordinated debentures, the trust preferred securities, the Senior Notes and the Subordinated Notes discussed above do not have LIBOR fallback provisions, after June 30, 2023, the interest and dividends paid on those instruments will be based upon the CME Term SOFR, as the replacement benchmark, including a static spread adjustment for the appropriate tenor as provided by the LIBOR Act and related Federal Reserve regulations. The relevant spread adjustment for a three-month tenor is 0.26161 percent.

NOTE 12

DERIVATIVE FINANCIAL INSTRUMENTS

Risk Management Objective of Using Derivatives

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

Derivatives Designated as Hedges

The Corporation's objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish these objectives, the Corporation primarily uses interest rate swaps and interest rate caps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the payment of fixed amounts to a counterparty in exchange for the Corporation receiving variable payments over the life of the agreements without exchange of the underlying notional amount. Interest rate caps designated as cash flow hedges involve the receipt of variable amounts from a counterparty if interest rates rise above the strike rate on the contract in exchange for an up-front premium. As of December 31, 2022 the Corporation had one interest rate swap with a notional amount of $10.0 million that was designated as a cash flow hedge. 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. Two interest rate swaps totaling $26.0 million, which 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, matured in the third quarter of 2022.

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, $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 twelve months ended December 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 $164,000 from accumulated other comprehensive income (loss) to interest income.

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

	Asset Derivatives				Liability Derivatives			
	December 31, 2022		December 31, 2021		December 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
Cash flow hedges:								
Interest rate swaps on borrowings	Other Assets	$ 164	Other Assets	$ —	Other Liabilities	$ —	Other Liabilities	$ 835

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

Derivatives in Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in Other Comprehensive Income on Derivative (Effective Portion) For the Year Ended December 31, 2022	2021
Interest rate products	$ 479	$ 138

The amount of loss reclassified from other comprehensive income into income related to cash flow hedging relationships is included in the table below for the years ended December 31, 2022, 2021 and 2020.

Derivatives Designated as Hedging Instruments under FASB ASC 815-10	Location of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income (Effective Portion)	Amount of Gain (Loss) Reclassified from Other Comprehensive Income into Income (Effective Portion) 2022	2021	2020
Interest rate contracts	Interest expense	$ (521)	$ (1,044)	$ (906)

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. The notional amount of customer-facing swaps was approximately $1.2 billion and $1.0 billion as of December 31, 2022 and December 31, 2021, respectively. This amount is offset with third party counterparties, as described above.

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

The table below presents the fair value of the Corporation’s non-designated hedges, as well as their classification on the Balance Sheet, as of December 31, 2022, and December 31, 2021.

	December 31, 2022		December 31, 2021	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Included in other assets:				
Interest rate swaps	$ 1,184,866	$ 92,652	$ 1,038,947	$ 41,133
Forward contracts related to mortgage loans to be delivered for sale	14,406	188	—	—
Interest rate lock commitments	5,049	32	—	—
Included in other assets	$ 1,204,321	$ 92,872	$ 1,038,947	$ 41,133
Included in other liabilities:				
Interest rate swaps	$ 1,184,866	$ 92,652	$ 1,038,947	$ 41,133
Forward contracts related to mortgage loans to be delivered for sale	4,483	63	—	—
Interest rate lock commitments	7,549	55	—	—
Included in other liabilities	$ 1,196,898	$ 92,770	$ 1,038,947	$ 41,133

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

Derivatives Not Designated as Hedging Instruments under FASB ASC 815-10	Location of Gain Recognized in Income on Derivative	Amount of Gain Recognized in Income on Derivative		
		2022	2021	2020
Forward contracts related to mortgage loans to be delivered for sale	Net gains and fees on sales of loans	$ 1,112	$ —	$ —
Interest rate lock commitments	Net gains and fees on sales of loans	71	—	—
Total net gain recognized in income		$ 1,183	$ —	$ —

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 December 31, 2022, the termination value of derivatives in a net liability position related to these agreements was $572,000, which resulted in no collateral pledged to counterparties as of December 31, 2022. While the Corporation did not breach any of these provisions as of December 31, 2022, if it had, the Corporation could have been required to settle its obligations under the agreements at their termination value.

NOTE 13

FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

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

RECURRING MEASUREMENTS

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

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

Investment Securities

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

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

Derivative Financial Agreements

See information regarding the Corporation's derivative financial agreements in NOTE 12. DERIVATIVE FINANCIAL INSTRUMENTS of these Notes to Consolidated Financial Statements.

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the ASC 820-10 fair value hierarchy in which the fair value measurements fall at December 31, 2022 and 2021.

		Fair Value Measurements Using:		
December 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. Government-sponsored agency securities	$ 101,962	$ —	$ 101,962	$ —
U.S. Treasury	2,459	2,459	—	—
State and municipal	1,351,760	—	1,348,356	3,404
U.S. Government-sponsored mortgage-backed securities	508,273	—	508,269	4
Corporate obligations	12,207	—	12,176	31
Derivative assets	93,036	—	93,036	—
Derivative liabilities	92,770	—	92,770	—

		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. Government-sponsored agency securities	$ 95,136	$ —	$ 95,136	$ —
U.S. Treasury	999	999	—	—
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	—

LEVEL 3 RECONCILIATION

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

	Available for Sale Securities For The Year Ended	
	December 31, 2022	**December 31, 2021**
Beginning Balance	$ 5,491	$ 2,479
Included in other comprehensive income	(612)	227
Purchases, issuances, and settlements	5,111	3,241
Principal payments	(6,551)	(456)
Ending balance	$ 3,439	$ 5,491

There were no gains or losses included in earnings that were attributable to the changes in unrealized gains or losses related to assets or liabilities held at December 31, 2022 or 2021.

TRANSFERS BETWEEN LEVELS

There were no transfers in or out of Level 3 during 2022 or 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 for year ended December 31, 2022 and 2021.

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

		Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
December 31, 2021	Fair Value	(Level 1)	(Level 2)	(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.

UNOBSERVABLE (LEVEL 3) INPUTS

The following table presents quantitative information about unobservable inputs used in recurring and nonrecurring Level 3 fair value measurements, other than goodwill, at December 31, 2022 and 2021.

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

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

FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents estimated fair values of the Corporation's financial instruments and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2022 and 2021.

	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 at December 31:				
Cash and due from banks	$ 122,594	$ 122,594	$ —	$ —
Interest-bearing deposits	126,061	126,061	—	—
Investment securities available for sale	1,976,661	2,459	1,970,763	3,439
Investment securities held to maturity	2,287,127	—	1,893,271	14,594
Loans held for sale	9,094	—	9,094	—
Loans	11,780,617	—	—	11,156,217
Federal Home Loan Bank stock	38,525	—	38,525	—
Derivative assets	93,036	—	93,036	—
Interest receivable	85,070	—	85,070	—
Liabilities at December 31:				
Deposits	$ 14,382,745	$ 13,105,936	$ 1,251,017	$ —
Borrowings:				
Federal funds purchased	171,560	—	171,560	—
Securities sold under repurchase agreements	167,413	—	167,396	—
Federal Home Loan Bank advances	823,674	—	615,211	—
Subordinated debentures and other borrowings	151,298	—	122,102	—
Derivative liabilities	92,770	—	92,770	—
Interest payable	7,530	—	7,530	—

	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 at December 31:				
Cash and due from banks	$ 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	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 at December 31:				
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	—

NOTE 14
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table summarizes the changes in the balances of each component of accumulated other comprehensive income (loss), net of tax, as of December 31, 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 before reclassifications	(293,326)	378	(850)	(293,798)
Amounts reclassified from accumulated other comprehensive income	(943)	412	65	(466)
Period change	(294,269)	790	(785)	(294,264)
Balance at December 31, 2022	$ (234,495)	$ 130	$ (4,786)	$ (239,151)
Balance at December 31, 2020	$ 87,988	$ (1,594)	$ (11,558)	$ 74,836
Other comprehensive income before reclassifications	(23,732)	109	7,491	(16,132)
Amounts reclassified from accumulated other comprehensive income	(4,482)	825	66	(3,591)
Period change	(28,214)	934	7,557	(19,723)
Balance at December 31, 2021	$ 59,774	$ (660)	$ (4,001)	$ 55,113

The following table presents the reclassification adjustments out of accumulated other comprehensive income (loss) that were included in net income in the Consolidated Statements of Income for the years ended December 31, 2022, 2021 and 2020:

	Amount Reclassified from Accumulated Other Comprehensive Income (Loss) For the Year Ended December 31,			
Details about Accumulated Other Comprehensive Income (Loss) Components	2022	2021	2020	Affected Line Item in the Statements of Income
Unrealized gains (losses) on available for sale securities [1]				
Realized securities gains reclassified into income	$ 1,194	$ 5,674	$ 11,895	Other income - net realized gains on sales of available for sale securities
Related income tax benefit (expense)	(251)	(1,192)	(2,498)	Income tax expense
	$ 943	$ 4,482	$ 9,397	
Unrealized gains (losses) on cash flow hedges [2]				
Interest rate contracts	$ (521)	$ (1,044)	$ (906)	Interest expense - subordinated debentures and other borrowings
Related income tax benefit (expense)	109	219	190	Income tax expense
	$ (412)	$ (825)	$ (716)	
Unrealized gains (losses) on defined benefit plans				
Amortization of net loss and prior service costs	$ (82)	$ (84)	$ (84)	Other expenses - salaries and employee benefits
Related income tax benefit (expense)	17	18	18	Income tax expense
	$ (65)	$ (66)	$ (66)	
Total reclassifications for the period, net of tax	$ 466	$ 3,591	$ 8,615	

[1] For additional detail related to unrealized gains (losses) on available for sale securities and related amounts reclassified from accumulated other comprehensive income see NOTE 4. INVESTMENT SECURITIES of these Notes to Consolidated 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 12. DERIVATIVE FINANCIAL INSTRUMENTS of these Notes to Consolidated Financial Statements.

NOTE 15

REGULATORY CAPITAL AND DIVIDENDS

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

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

Basel III requires the Corporation and the Bank to maintain the minimum capital and leverage ratios as defined in the regulation and as illustrated in the following table, 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 December 31, 2022, 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.

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

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

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

	Actual		Prompt Corrective Action Thresholds			
			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 %

A reconciliation of certain non-GAAP amounts used in the determination of the above regulatory measures is detailed within the “Capital” section of Management’s Discussion and Analysis of Financial Condition and Results of Operations included as Item 7 of this Annual Report on Form 10-K.

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 December 31, 2022 and 2021, risk-weighted assets included $4.7 million and $106.6 million, respectively, of PPP loans at a zero risk weight.

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

Dividends
The Corporation's principal source of funds for dividend payments to shareholders is dividends received from the Bank. Banking regulations limit the maximum amount of dividends that a bank may pay without requesting prior approval of regulatory agencies. Under these regulations, the amount of dividends that may be paid in any calendar year is limited to the bank's retained income (as defined under the regulations) for the current year plus those for the previous two years, subject to the capital requirements described above. As of December 31, 2022, the amount available for dividends from the Corporation's subsidiaries (both banking and non-banking), without prior regulatory approval or notice, was $288.7 million.

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

Stockholders' Equity
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.

Preferred Stock
As part of the Level One acquisition, the Corporation issued 10,000 shares of a newly created 7.5 percent non-cumulative perpetual preferred stock with a liquidation preference of $2,500 per share, in exchange for the outstanding Level One Series B preferred stock, and as part of that exchange, each outstanding Level One depositary share representing a 1/100th interest in a share of the Level One 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. As a result of the issuance, the Corporation had $25.0 million of outstanding preferred stock at December 31, 2022. During the period ended December 31, 2022, the Corporation declared and paid dividends of $46.88 per share (equivalent to $0.4688 per depositary share) equal to $1.4 million. The Series A preferred stock qualifies as Tier 1 capital for purposes of the regulatory capital calculations.

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

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

NOTE 16

LOAN SERVICING

Mortgage loans serviced for others are not included in the accompanying Consolidated Balance Sheets. The unpaid balances are as follows for December 31, 2022, 2021 and 2020. The amount of capitalized servicing assets is considered immaterial.

	2022	2021	2020
Mortgage loan portfolios serviced for:			
Federal Home Loan Mortgage Corporation	$ 794,222	$ 765,547	$ 514,539
Fannie Mae	54,934	60,839	69,072
Equity Bank	49,558	60,107	—
Federal Home Loan Bank	27,127	32,558	51,479
Chevy Chase Mortgage Company	—	85	134
Total	$ 925,841	$ 919,136	$ 635,224

NOTE 17

SHARE-BASED COMPENSATION

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

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

Compensation expense related to unvested share-based awards is recorded by recognizing the unamortized grant date fair value of these awards over the remaining service periods of those awards, with no change in historical reported fair values and earnings. Awards are valued at fair value in accordance with provisions of share-based compensation guidance and are recognized on a straight-line basis over the service periods of each award. To complete the exercise of vested stock options, RSAs and ESPP options, the Corporation generally issues new shares from its authorized but unissued share pool. Share-based compensation for the years ended December 31, 2022, 2021, and 2020 was $4.7 million, $4.8 million, and $4.6 million, respectively, and has been recognized as a component of salaries and benefits expense in the accompanying Consolidated Statements of Income.

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

The following table summarizes the components of the Corporation's share-based compensation awards recorded as an expense and the income tax benefit of such awards. For the year ended 2022, RSAs vested at a stock price higher than the grant date stock price resulting in recognition of income tax benefit at vesting of $86,000. In 2021 and 2020, the Corporation had RSAs vest primarily at a stock price that was lower than the grant date stock price, which resulted in the recognition of income tax expense at vesting of $112,000 and $394,000, respectively.

	Years Ended December 31,		
	2022	2021	2020
Stock and ESPP Options			
Pre-tax compensation expense	$ 95	$ 155	$ 96
Income tax benefit	(74)	(92)	(29)
Stock and ESPP option expense, net of income taxes	$ 21	$ 63	$ 67
Restricted Stock Awards			
Pre-tax compensation expense	$ 4,557	$ 4,607	$ 4,504
Income tax benefit	(1,043)	(855)	(552)
Restricted stock awards expense, net of income taxes	$ 3,514	$ 3,752	$ 3,952
Total Share-Based Compensation:			
Pre-tax compensation expense	$ 4,652	$ 4,762	$ 4,600
Income tax benefit	(1,117)	(947)	(581)
Total share-based compensation expense, net of income taxes	$ 3,535	$ 3,815	$ 4,019

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

Stock option activity under the Corporation's stock option plans, as of December 31, 2022, and changes during the year ended December 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		
Transferred Options from Level One	148,600	$ 18.84		
Exercised	(22,000)	$ 16.28		
Outstanding December 31, 2022	155,100	$ 18.89	2.47	$ 3,446,110
Vested and Expected to Vest at December 31, 2022	155,100	$ 18.89	2.47	$ 3,446,110
Exercisable at December 31, 2022	155,100	$ 18.89	2.47	$ 3,446,110

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 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 December 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 years ended December 31, 2022 and 2021 was $533,000 and $559,000, respectively. Cash receipts of stock options exercised during 2022 and 2021 were $358,000 and $198,000, respectively.

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

	Number of Shares	Weighted-Average Grant Date Fair Value
Unvested RSAs at January 1, 2022	411,259	$ 35.86
Granted	137,267	$ 40.66
Forfeited	(13,775)	$ 37.18
Vested	(118,046)	$ 37.35
Unvested RSAs at December 31, 2022	416,705	$ 36.97

As of December 31, 2022, unrecognized compensation expense related to RSAs was $8.9 million and is expected to be recognized over weighted-average period of 1.79 years. The Corporation did not have any unrecognized compensation expense related to stock options as of December 31, 2022.

NOTE 18

PENSION AND OTHER POST RETIREMENT BENEFIT PLANS

The Corporation’s defined-benefit pension plans, including non-qualified plans for certain employees, former employees and former non-employee directors, cover approximately 8 percent of the Corporation’s employees. In 2005, the Board of Directors of the Corporation approved the curtailment of the accumulation of defined benefits for future services provided by certain participants in the First Merchants Corporation Retirement Plan. No additional pension benefits have been earned by any employees who had not attained both the age of 55 and accrued at least 10 years of vesting service as of March 1, 2005. The benefits are based primarily on years of service and employees’ pay near retirement. Contributions are intended to provide not only for benefits attributed to service-to-date, but also for those expected to be earned in the future.

The table below sets forth the plans' funded status and amounts recognized in the Consolidated Balance Sheets at December 31, using measurement dates of December 31, 2022 and 2021.

	2022	2021
Change in Benefit Obligation:		
Benefit obligation at beginning of year	$ 74,274	$ 80,786
Service cost	—	—
Interest cost	1,905	1,760
Actuarial (gain) loss	(14,546)	(2,919)
Benefits paid	(5,869)	(5,353)
Benefit obligation at end of year	$ 55,764	$ 74,274
Change in Plan Assets:		
Fair value of plan assets at beginning of year	$ 94,588	$ 88,512
Actual return on plan assets	(11,799)	10,786
Employer contributions	614	643
Benefits paid	(5,869)	(5,353)
End of year	77,534	94,588
Funded status at end of year	$ 21,770	$ 20,314
Assets and Liabilities Recognized in the Balance Sheets:		
Deferred tax asset	$ 1,955	$ 1,545
Assets	$ 25,175	$ 24,750
Liabilities	$ 3,405	$ 4,436

As of December 31, 2022, the funded status of the plans increased $1.5 million and the accumulated other comprehensive loss, net of tax, decreased $785,000 from December 31, 2021. A primary contributing factor to these changes was the discount rate increasing by 270 basis points from 2.7 percent to 5.4 percent, which decreased the liability by $14.8 million. This was offset by a $200,000 increase in the liability due to incorporation of new census data. The plans' assets experienced a loss of $11.8 million, as compared to an expected return of $4.5 million.

The accumulated benefit obligation for all defined benefit plans was $55.8 million and $74.3 million at December 31, 2022 and 2021, respectively.

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

	December 31, 2022	December 31, 2021
Projected benefit obligation	$ 3,405	$ 4,436
Accumulated benefit obligation	$ 3,405	$ 4,436
Fair value of plan assets	$ —	$ —

The Corporation recognized expense under these non-qualified plans of $122,000, $117,000 and $165,000 for 2022, 2021 and 2020, respectively.

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

	December 31, 2022	December 31, 2021	December 31, 2020
Service cost	$ —	$ —	$ 16
Interest cost	1,905	1,760	2,343
Expected return on plan assets	(4,544)	(4,246)	(4,086)
Amortization of prior service cost	87	87	87
Amortization of net loss	13	305	221
Net periodic pension benefit cost	$ (2,539)	$ (2,094)	$ (1,419)

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

	December 31, 2022	December 31, 2021	December 31, 2020
Net periodic pension benefit cost	$ (2,539)	$ (2,094)	$ (1,419)
Net gain (loss)	(1,797)	9,460	(3,119)
Amortization of net loss	13	305	221
Amortization of prior service cost	87	87	87
Total recognized in other comprehensive income (loss)	(1,697)	9,852	(2,811)
Total recognized in net periodic pension benefit cost and other comprehensive income (loss)	$ 842	$ 11,946	$ (1,392)

Significant assumptions include:

	December 31, 2022	December 31, 2021	December 31, 2020
Weighted-average Assumptions Used to Determine Benefit Obligation:			
Discount rate	5.40 %	2.70 %	2.30 %
Rate of compensation increase for accruing active participants	n/a	n/a	n/a
Weighted-average Assumptions Used to Determine Cost:			
Discount rate	2.70 %	2.30 %	3.20 %
Expected return on plan assets	5.00 %	5.00 %	5.00 %
Rate of compensation increase for accruing active participants	n/a	n/a	n/a

At December 31, 2022 and 2021, the Corporation based its estimate of the expected long-term rate of return on analysis of the historical returns of the plans and current market information available. The plans' investment strategies are to provide for preservation of capital with an emphasis on long-term growth without undue exposure to risk. The assets of the plans' are invested in accordance with the plans' Investment Policy Statement, subject to strict compliance with ERISA and any other applicable statutes.

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

At December 31, 2022, the maturities of the plans' debt securities ranged from 15 days to 9.1 years, with a weighted average maturity of 3.9 years. At December 31, 2021, the maturities of the plans' debt securities ranged from 40 days to 7.7 years, with a weighted average maturity of 3.5 years.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as of December 31, 2022. The minimum contribution required in 2023 will likely be zero, but the Corporation may decide to make a discretionary contribution during the year.

2023	$ 5,632
2024	5,431
2025	5,352
2026	5,176
2027	4,889
After 2027	21,143
	$ 47,623

Plan assets are re-balanced quarterly. At December 31, 2022 and 2021, plan assets by category are as follows:

	December 31, 2022		December 31, 2021	
	Actual	Target	Actual	Target
Cash and cash equivalents	5.9 %	3.0 %	2.5 %	3.0 %
Equity securities	51.5	50.0	56.4	53.0
Debt securities	40.4	45.0	38.6	42.0
Alternative investments	2.2	2.0	2.5	2.0
	100.0 %	100.0 %	100.0 %	100.0 %

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

Beginning in 2005, employees who have completed 1000 hours of service and are an active employee on the last day of the year receive an additional retirement contribution after year-end. Employees hired after January 1, 2010 do not participate in the additional retirement contribution. Effective January 1, 2013, the additional retirement contribution was fixed at 2 percent. Full vesting occurs after five years of service. The Corporation's expense for the Savings Plan, including the additional retirement contribution, was $6.5 million, $5.2 million and $5.1 million for 2022, 2021 and 2020, respectively.

The Corporation also maintains a post retirement benefit plan that provides health insurance benefits for a closed group of participants that came to the Corporation through the 2019 MBT acquisition. To be eligible for the post retirement plan, the participants must (1) have been hired by MBT prior to January 1, 2007, (2) be a full-time employee of the Corporation and employed by MBT prior to the acquisition, and (3) be at least 55 years of age with 5 years of full-time service with MBT. The plan allowed retirees to be carried under the Corporation's health insurance plan, generally from ages 55 to 65. The retirees' premiums are determined based on their retiree class (per historical MBT guidelines) and also determined by the plan type for which the retiree is enrolled. As of December 31, 2022 and 2021, the obligation payable under the post retirement plan was $2.4 million and $3.2 million, respectively. Post retirement plan expense totaled $53,000, $62,000 and $126,000 for 2022, 2021 and 2020, respectively.

Pension Plan Assets

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

Where quoted market prices are available in an active market, plan assets are classified within Level 1 of the valuation hierarchy. Level 1 plan assets total $74.0 million and $92.0 million as of December 31, 2022 and 2021, respectively, and include cash and cash equivalents, common stocks, mutual funds and corporate bonds and notes. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of plan assets with similar characteristics or discounted cash flows. Level 2 plan assets total $3.5 million and $2.6 million as of December 31, 2022 and 2021, respectively, and include governmental agencies, taxable municipal bonds and notes, and certificates of deposit. In certain cases where Level 1 or Level 2 inputs are not available, plan assets are classified within Level 3 of the hierarchy. There are no assets classified within Level 3 of the hierarchy at December 31, 2022 and 2021.

		Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
December 31, 2022	**Fair Value**	**(Level 1)**	**(Level 2)**	**(Level 3)**
Cash & Cash Equivalents	$ 4,559	$ 4,559	$ —	$ —
Corporate Bonds and Notes	17,159	17,159	—	—
Government Agency and Municipal Bonds and Notes	3,010	—	3,010	—
Certificates of Deposit	492	—	492	—
Party-in-Interest Investments				
Common Stock	2,487	2,487	—	—
Mutual Funds				
Taxable Bond	10,686	10,686	—	—
Large Cap Equity	21,056	21,056	—	—
Mid Cap Equity	9,610	9,610	—	—
Small Cap Equity	4,419	4,419	—	—
International Equity	2,357	2,357	—	—
Specialty Alternative Equity	1,699	1,699	—	—
	$ 77,534	$ 74,032	$ 3,502	$ —

		Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
December 31, 2021	**Fair Value**	**(Level 1)**	**(Level 2)**	**(Level 3)**
Cash & Cash Equivalents	$ 2,346	$ 2,346	$ —	$ —
Corporate Bonds and Notes	15,726	15,726	—	—
Government Agency and Municipal Bonds and Notes	1,302	—	1,302	—
Certificates of Deposit	1,307	—	1,307	—
Party-in-Interest Investments				
Common Stock	2,534	2,534	—	—
Mutual Funds				
Taxable Bond	18,184	18,184	—	—
Large Cap Equity	28,349	28,349	—	—
Mid Cap Equity	13,033	13,033	—	—
Small Cap Equity	5,815	5,815	—	—
International Equity	3,602	3,602	—	—
Specialty Alternative Equity	2,390	2,390	—	—
	$ 94,588	$ 91,979	$ 2,609	$ —

NOTE 19

INCOME TAX

The reconciliation between income tax expense expected at the U.S. federal statutory tax rate and the reported income tax expense is summarized in the following table for years ended December 31, 2022, 2021 and 2020:

	2022	2021	2020
Reconciliation of Federal Statutory to Actual Tax Expense:			
Federal Statutory Income Tax at 21%	$ 53,692	$ 50,566	$ 35,695
Tax-exempt Interest Income	(19,349)	(16,200)	(13,273)
Stock Compensation	(214)	(20)	338
Earnings on Life Insurance	(2,344)	(1,468)	(1,079)
Tax Credits	(414)	(354)	(425)
CARES Act - NOL carryback rate differential	—	—	(1,178)
State Tax	2,494	2,697	1,122
Other	(280)	38	175
Income Tax Expense	$ 33,585	$ 35,259	$ 21,375
Effective Tax Rate	13.1 %	14.6 %	12.6 %

Income tax expense consists of the following components for the years ended December 31, 2022, 2021, 2020:

	2022	2021	2020
Income Tax Expense for the Year Ended December 31:			
Currently Payable:			
Federal	$ 21,824	$ 24,634	$ 28,463
State	2,696	1,473	2,647
Deferred:			
Federal	8,604	7,211	(8,508)
State	461	1,941	(1,227)
Income Tax Expense	$ 33,585	$ 35,259	$ 21,375

Significant components of the net deferred tax assets and liabilities resulting from temporary differences were as follows at December 31, 2022 and 2021:

	2022	2021
Deferred Tax Asset at December 31:		
Assets:		
Differences in Accounting for Loan Losses	$ 61,484	$ 52,995
Differences in Accounting for Loan Fees	2,094	2,016
Deferred Compensation	3,922	4,172
Federal & State Income Tax Loss Carryforward and Credits	600	747
Net Unrealized Loss on Securities Available for Sale	62,323	—
Other	2,883	3,585
Total Assets	133,306	63,515
Liabilities:		
Differences in Depreciation Methods	7,039	5,726
Differences in Accounting for Loans and Securities	1,058	3,078
Difference in Accounting for Pensions and Other Employee Benefits	3,687	4,586
State Income Tax	1,859	1,499
Net Unrealized Gain on Securities Available for Sale	—	15,889
Gain on FDIC Modified Whole Bank Transaction	287	306
Other	9,919	8,108
Total Liabilities	23,849	39,192
Net Deferred Tax Asset	$ 109,457	$ 24,323

As of December 31, 2022, the Corporation has approximately $12.2 million of state NOL carryforwards available to offset future state taxable income, which will expire beginning in 2024. These NOL carryforwards along with normal timing differences between book and tax result in total state deferred tax assets of $8.9 million. Management believes it is more likely than not that the benefit of these state NOL carryforwards and other state deferred tax assets will be fully realized.

The Corporation has additional paid-in capital that is considered restricted resulting from the acquisitions of CFS and Ameriana of approximately $13.4 million and $11.9 million, respectively. CFS and Ameriana qualified as banks under provisions of the Internal Revenue Code which permitted them to deduct from taxable income an allowance for bad debts which differed from the provision for losses charged to income, for which no deferred federal income tax liability has been recognized. If in the future this portion of additional paid-in capital is distributed, or the Corporation no longer qualifies as a bank for income tax purposes, federal income taxes may be imposed at the then applicable tax rate. The unrecorded deferred tax liability at December 31, 2022, would have been approximately $5.3 million.

The Corporation or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. The Corporation is generally no longer subject to U.S. federal, state and local income tax examinations by tax authorities for tax years before 2019.

Additional details regarding the Corporation's policies related to income taxes are discussed in NOTE 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES of these Notes to Consolidated Financial Statements.

NOTE 20

NET INCOME PER COMMON SHARE

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

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

	2022			2021			2020		
	Net Income Available to Common Stockholders	Weighted-Average Common Shares	Per Share Amount	Net Income Available to Common Stockholders	Weighted-Average Common Shares	Per Share Amount	Net Income Available to Common Stockholders	Weighted-Average Common Shares	Per Share Amount
Net income available to common stockholders	$ 220,683	57,692,018	$ 3.83	$ 205,531	53,783,632	$ 3.82	$ 148,600	54,058,471	$ 2.75
Effect of potentially dilutive stock options and restricted stock awards		258,239			200,597			161,913	
Diluted net income per common share	$ 220,683	57,950,257	$ 3.81	$ 205,531	53,984,229	$ 3.81	$ 148,600	54,220,384	$ 2.74

As of December 31, 2022, 2021 and 2020, there were no stock options with an option price greater than the average market price of the common shares.

NOTE 21

CONDENSED FINANCIAL INFORMATION (parent company only)

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

Condensed Balance Sheets

	December 31, 2022	December 31, 2021
Assets		
Cash and due from banks	$ 56,739	$ 127,501
Investment in subsidiaries	2,124,104	1,900,787
Premises and equipment	119	274
Interest receivable	6	2
Goodwill	448	448
Cash surrender value of life insurance	736	716
Other assets	6,851	10,281
Total assets	$ 2,189,003	$ 2,040,009
Liabilities		
Subordinated debentures and other borrowings	$ 150,115	$ 118,618
Interest payable	979	864
Other liabilities	3,139	7,956
Total liabilities	154,233	127,438
Stockholders' equity	2,034,770	1,912,571
Total liabilities and stockholders' equity	$ 2,189,003	$ 2,040,009

Condensed Statements of Income and Comprehensive Income (Loss)

	December 31, 2022	December 31, 2021	December 31, 2020
Income			
Dividends from subsidiaries	$ 90,500	$ 161,825	$ 70,100
Other income	(1,693)	(50)	(62)
Total income	88,807	161,775	70,038
Expenses			
Interest expense	8,005	6,642	6,777
Salaries and employee benefits	3,786	3,917	3,426
Net occupancy and equipment expenses	46	825	745
Professional and other outside services	2,187	1,264	949
Other expenses	1,396	1,687	1,266
Total expenses	15,420	14,335	13,163
Income before income tax benefit and equity in undistributed income of subsidiaries	73,387	147,440	56,875
Income tax benefit	3,645	2,929	2,260
Income before equity in undistributed income of subsidiaries	77,032	150,369	59,135
Equity in undistributed income of subsidiaries	145,057	55,162	89,465
Net income	222,089	205,531	148,600
Preferred stock dividends	1,406	—	—
Net income available to common stockholders	$ 220,683	$ 205,531	$ 148,600
Net income	$ 222,089	$ 205,531	$ 148,600
Other comprehensive income (loss)	(294,264)	(19,723)	46,962
Comprehensive income (loss)	$ (72,175)	$ 185,808	$ 195,562

Condensed Statements of Cash Flows

	December 31, 2022	December 31, 2021	December 31, 2020
Cash Flow From Operating Activities:			
Net income	$ 222,089	$ 205,531	$ 148,600
Adjustments to reconcile net income to net cash provided by operating activities			
Share-based compensation	1,659	1,563	1,502
Distributions in excess of (equity in undistributed) income of subsidiaries	(145,057)	(55,162)	(89,465)
Other adjustments	(6,258)	(1,173)	1,537
Investment in subsidiaries - operating activities	333	885	235
Net cash provided by operating activities	72,766	151,644	62,409
Cash Flow From Investing Activities:			
Net cash and cash equivalents paid in acquisition	(72,494)	—	—
Net cash used by investing activities	(72,494)	—	—
Cash Flow From Financing Activities:			
Cash dividends on common stock	(72,748)	(61,230)	(56,542)
Cash dividends on preferred stock	(1,406)	—	—
Repayment of borrowings	—	—	(20,310)
Stock issued under employee benefit plans	706	605	639
Stock issued under dividend reinvestment and stock purchase plan	2,056	1,880	1,726
Stock options exercised	358	198	115
Repurchases of common stock	—	(25,444)	(55,912)
Net cash used by financing activities	(71,034)	(83,991)	(130,284)
Net change in cash and cash equivalents	(70,762)	67,653	(67,875)
Cash and cash equivalents, beginning of the year	127,501	59,848	127,723
Cash and cash equivalents, end of year	$ 56,739	$ 127,501	$ 59,848

NOTE 22

GENERAL LITIGATION

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

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

In connection with its audits for the two most recent fiscal years ended December 31, 2022, there have been no disagreements with the Corporation's independent registered public accounting firm on any matter of accounting principles or practices, financial statement disclosure or audit scope or procedure, nor have there been any changes in accountants.

ITEM 9A. CONTROLS AND PROCEDURES

At the end of the period covered by this report (the "Evaluation Date"), the Corporation carried out an evaluation, under the supervision and with the participation of the Corporation's management, including the Corporation's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of its disclosure controls and procedures pursuant to Rule 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 ("Exchange Act"). Based upon that evaluation, the Corporation's Chief Executive Officer and Chief Financial Officer concluded that, as of the Evaluation Date, the Corporation's disclosure controls and procedures are effective. Disclosure controls and procedures are controls and procedures that are designed to ensure that information required to be disclosed in the Corporation's reports filed or submitted under the Exchange Act are recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

Management assessed the effectiveness of the Corporation's internal control over financial reporting as of December 31, 2022. In making this assessment, management used the criteria set forth in "Internal Control - Integrated Framework (2013)" issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. As permitted by SEC guidance, management excluded from its assessment the operations of the Level One Bancorp, Inc. acquisition made during 2022, which is described in NOTE 2. ACQUISITIONS of the Notes to Consolidated Financial Statements included as Item 8 of this Annual Report on Form 10-K. The assets of Level One Bancorp, Inc. represented approximately 13 percent of the Corporation's consolidated assets as of December 31, 2022. Based on this assessment, management has determined that the Corporation's internal control over financial reporting as of December 31, 2022 is effective based on the specified criteria.

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

FORVIS, LLP, the independent registered public accounting firm that audited the financial statements included in Item 8 of this Annual Report on Form 10-K, has issued an attestation report on the Corporation's internal control over financial reporting as of December 31, 2022, which appears as follows.

Report of Independent Registered Public Accounting Firm

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

Opinion on the Internal Control Over Financial Reporting

We have audited First Merchants Corporation's (the "Corporation") internal control over financial reporting as of December 31, 2022, based on criteria established in Internal Control – Integrated Framework: (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2022, based on criteria established in Internal Control – Integrated Framework: (2013) issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated financial statements of the Corporation as of December 31, 2022 and 2021, and for each of the three years in the period ended December 31, 2022 and our report dated March 1, 2023, expressed an unqualified opinion on those financial statements.

Basis for Opinion

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

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

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

As described in management's report, the scope of management's assessment of internal control over financial reporting as of December 31, 2022 has excluded Level One Bancorp, Inc. acquired on April 1, 2022. Level One Bancorp, Inc. represented nine percent of consolidated revenues for the year ended December 31, 2022, and seven percent of consolidated total assets as of December 31, 2022.

Definitions and Limitations of Internal Control over Financial Reporting

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

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

FORVIS, LLP
(Formerly BKD, LLP)

Indianapolis, Indiana
March 1, 2023

ITEM 9B. OTHER INFORMATION

None

ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

Not applicable

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

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

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

The Corporation will provide information that is responsive to the remainder of this Item 10 in its definitive proxy statement furnished to stockholders in connection with the 2023 annual meeting ("2023 Proxy Statement") or in an amendment to this Annual Report not later than 120 days after the end of the fiscal year covered hereby. That information is incorporated in this Item 10 by reference.

ITEM 11. EXECUTIVE COMPENSATION

The Corporation will provide information that is responsive to this Item 11 in its 2023 Proxy Statement or in an amendment to this Annual Report on Form 10-K not later than 120 days after the end of the fiscal year covered hereby. That information is incorporated in this Item 11 by reference.

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

Equity Compensation Plan Information

The following table provides information about the Corporation's common stock that may be issued under equity compensation plans as of December 31, 2022.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercised price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensations plans (excluding securities reflected in first column)
Equity compensation plans approved by stockholders	155,100	$ 18.89	1,698,364
Total	155,100	$ 18.89	1,698,364

Security Ownership and Related Matters

The Corporation will provide additional information that is responsive to this Item 12 in its 2023 Proxy Statement or in an amendment to this Annual Report not later than 120 days after the end of the fiscal year covered hereby. That information is incorporated in this Item 12 by reference.

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

The Corporation will provide information that is responsive to this Item 13 in its 2023 Proxy Statement or in an amendment to this Annual Report on Form 10-K not later than 120 days after the end of the fiscal year covered hereby. That information is incorporated in this Item 13 by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Our independent registered public accounting firm is FORVIS, LLP, Indianapolis, IN, Auditor Firm ID: 686.

The Corporation will provide information that is responsive to this Item 14 in its 2023 Proxy Statement or in an amendment to this Annual Report on Form 10-K not later than 120 days after the end of the fiscal year covered hereby. That information is incorporated in this Item 14 by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

FINANCIAL INFORMATION

(a) 1. The following financial statements are filed as part of this document under Item 8 hereof:
Independent accountants' report
Consolidated Balance Sheets at December 31, 2022 and 2021
Consolidated Statements of Income, years ended December 31, 2022, 2021 and 2020
Consolidated Statements of Comprehensive Income, years ended December 31, 2022, 2021 and 2020
Consolidated Statements of Stockholders' Equity, years ended December 31, 2022, 2021 and 2020
Consolidated Statements of Cash Flows, years ended December 31, 2022, 2021 and 2020
Notes to consolidated financial statements

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

(a) 3. Exhibits:

Exhibit No:	Description of Exhibits:
3.1	First Merchants Corporation Articles of Incorporation, as amended (Incorporated by reference to Exhibit 3.1 of registrant's Form 8-K filed on March 24, 2022) (SEC No. 000-17071)
3.2	Bylaws of First Merchants Corporation effective as of June 22, 2022 (Incorporated by reference to Exhibit 3.1 of registrant's Form 8-K filed on June 23, 2022) (SEC No. 001-41342)
4.1	First Merchants Corporation Amended and Restated Declaration of Trust of First Merchants Capital Trust II dated as of July 2, 2007 (Incorporated by reference to Exhibit 4.1 of registrant's Form 8-K filed on July 3, 2007) (SEC No. 000-17071)
4.2	Indenture dated as of July 2, 2007 (Incorporated by reference to Exhibit 4.2 of registrant's Form 8-K filed on July 3, 2007) (SEC No. 000-17071)
4.3	Guarantee Agreement dated as of July 2, 2007 (Incorporated by reference to Exhibit 4.3 of registrant's Form 8-K filed on July 3, 2007) (SEC No. 000-17071)
4.4	Form of Capital Securities Certification of First Merchants Capital Trust II (Incorporated by reference to Exhibit 4.4 of registrant's Form 8-K filed on July 3, 2007) (SEC No. 000-17071)
4.5	First Merchants Corporation Dividend Reinvestment and Stock Purchase Plan (Incorporated by reference to registrant's Prospectus filed pursuant to Rule 424(b)(3) on July 17, 2020) (SEC No. 333-229527)
4.6	Upon request, the registrant agrees to furnish supplementally to the Commission a copy of the instruments defining the rights of holders of its (a) 5.00% Fixed-to-Floating Rate Senior Notes due 2028 in the aggregate principal amount of $5 million and (b) 6.75% Fixed-to-Floating Rate Subordinated Notes due 2028 in aggregate principal amount of $65 million.
4.7	Description of the Registrant's Securities Registered under Section 12 of the Securities Exchange Act of 1934 (2)
4.8	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)
4.9	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)
4.10	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)
4.11	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)
4.12	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	First Merchants Corporation Senior Management Incentive Compensation Program, dated February 7, 2023 (Incorporated by reference to the description in Item 5.02 of registrant's Form 8-K filed on February 10, 2023) (SEC No. 001-41342) (1)
10.2	First Merchants Corporation non-employee director compensation schedule adopted February 9, 2021 (Incorporated by reference to Exhibit 10.1 of registrant's Form 10-Q filed on May 10, 2021) (SEC No. 000-17071) (1)
10.3	First Merchants Corporation Non-Employee Directors' Deferred Compensation Plan, effective as of January 1, 2018 (Incorporated by reference to Exhibit 10.1 of registrant's Form 8-K filed on December 15, 2017) (SEC No. 000-17071) (1)
10.4	First Merchants Corporation 2009 Long-Term Equity Incentive Plan, effective as amended January 1, 2015 (Incorporated by reference to Exhibit 10.3 of registrant's Form 10-K filed on February 27, 2015) (SEC No. 000-17071) (1)
10.5	First Merchants Corporation Change of Control Agreement, as amended, with Mark K. Hardwick dated June 1, 2011 (Incorporated by reference to Exhibit 10.2 of registrant's Form 10-Q filed on August 9, 2011) (SEC No. 000-17071) (1)
10.6	First Merchants Corporation Change of Control Agreement, as amended, with Michael J. Stewart dated June 1, 2011 (Incorporated by reference to Exhibit 10.3 registrant's Form 10-Q filed on August 9, 2011) (SEC No. 000-17071) (1)
10.7	First Merchants Corporation Change of Control Agreement, as amended, with John J. Martin dated June 1, 2011 (Incorporated by reference to Exhibit 10.4 of registrant's Form 10-Q filed on August 9, 2011) (SEC No. 000-17071) (1)
10.8	First Merchants Corporation Change of Control Agreement, effective February 11, 2014, with Stephan H. Fluhler (Incorporated by reference to Exhibit 10.1 of registrant's Form 8-K filed on May 12, 2014) (SEC No. 000-17071) (1)

10.9	First Merchants Corporation Change of Control Agreement, effective November 4, 2021, with Michele M. Kawiecki (Incorporated by reference to Exhibit 10.1 of registrant's Form 8-K filed on November 10, 2021) (SEC No. 000-17071) (1)
10.10	First Merchants Corporation Supplemental Executive Retirement Plan and amendments thereto (Incorporated by reference to Exhibit 10.7 of registrant's Form 10-K filed on March 27, 1998) (SEC No. 000-17071) (1)
10.11	First Merchants Corporation Defined Contribution Supplemental Retirement Plan dated January 1, 2006 (Incorporated by reference to Exhibit 10.1 of registrant's Form 8-K filed on February 6, 2007) (SEC No. 000-17071) (1)
10.12	First Merchants Corporation Participation Agreement of Michael C. Rechin dated January 26, 2007 (Incorporated by reference to Exhibit 10.2 of registrant's Form 8-K filed on February 6, 2007) (SEC No. 000-17071) (1)
10.13	2011 Executive Deferred Compensation Plan, effective January 1, 2011 (Incorporated by reference to Exhibit 10.1 of registrant's Form 8-K filed on November 3, 2011) (SEC No. 000-17071) (1)
10.14	First Merchants Corporation 2019 Long-Term Equity Incentive Plan (Incorporated by reference to Exhibit 10.1 of registrant's Form 8-K filed May 15, 2019) (SEC No. 000-17071) (1)
10.15	First Merchants Corporation 2019 Employee Stock Purchase Plan (Incorporated by reference to Exhibit 10.2 of registrant's Form 8-K filed May 15, 2019) (SEC No. 000-17071) (1)
10.16	First Merchants Corporation Equity Compensation Plan for Non-Employee Directors (Incorporated by reference to Exhibit 4.5 of registrant's Form S-8 filed June 26, 2019) (SEC No. 333-232362) (1)
10.17	Consulting Agreement between Michael C. Rechin and First Merchants Corporation, effective January 1, 2021 (Incorporated by reference to Exhibit 10.1 of registrant's Form 8-K filed on September 29, 2020) (SEC No. 000-17071) (1)
10.18	Amendment to Consulting Agreement between Michael C. Rechin and First Merchants Corporation, effective January 1, 2023 (1) (2)
10.19	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)
10.20	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)
21	Subsidiaries of registrant (2)
23	Consent of Independent Registered Public Accounting Firm (2)
24	Limited Power of Attorney (2)
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes - Oxley Act of 2002 (2)
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes - Oxley Act of 2002 (2)
32	Certifications Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (3)
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document (2)
101.SCH	Inline XBRL Taxonomy Extension Schema Document (2)
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document (2)
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document (2)
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document (2)
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document (2)
104	Cover Page Interactive Data File (formatted as Inline XBRL and included in Exhibit 101)

(1) Management contract or compensatory plan
(2) Filed herewith.
(3) Furnished herewith.

ITEM 16. FORM 10-K SUMMARY

Not applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on this 1st day of March, 2023.

FIRST MERCHANTS CORPORATION

By: /s/ Mark K. Hardwick
Mark K. Hardwick
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report on Form 10-K has been signed by the following persons on behalf of the registrant and in the capacities indicated, on this 1st day of March, 2023.

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

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

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

/s/ Kevin D. Johnson*
Kevin D. Johnson, Director

/s/ Susan W. Brooks*
Susan W. Brooks, Director

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

/s/ Patrick J. Fehring*
Patrick J. Fehring, Director

/s/ Gary J. Lehman*
Gary J. Lehman, Director

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

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

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

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

/s/ Mark K. Hardwick*
Mark K. Hardwick, Director

/s/ Jason R. Sondhi*
Jason R. Sondhi, Director

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

/s/ Jean L. Wojtowicz*
Jean L. Wojtowicz, Director

* By Michele M. Kawiecki as Attorney-in Fact pursuant to a Limited Power of Attorney executed by the directors listed above, which Power of Attorney is being filed with the Securities and Exchange Commission as an exhibit hereto.

/s/ Michele M. Kawiecki
Michele M. Kawiecki
As Attorney-in-Fact
March 1, 2023

EXHIBIT-4.7

Description of the Registrant's Securities Registered under Section 12 of the Securities Exchange Act of 1934

The common stock and depositary shares, each representing a 1/100th interest in a share of 7.50% Non-Cumulative Perpetual Preferred Stock, Series A (each, a "Depositary Share" and, collectively, the "Depositary Shares"), of First Merchants Corporation (the "Corporation") are registered pursuant to Section 12 of the Securities Exchange Act of 1934, as amended. The following description of the material terms of the Company's common stock and Depositary Shares is only a summary. This summary does not purport to be a complete description of the terms and conditions of the Company's common stock and Depositary Shares in all respects and is subject to and qualified in its entirety by reference to the Corporation's Articles of Incorporation and Bylaws, each of which are filed or incorporated by reference as an exhibit to the Company's Annual Report on Form 10-K of which this Exhibit is a part, as well as any other documents referenced in this summary and from which this summary is derived.

General

The total number of shares of common stock that the Corporation is authorized to issue is 100,000,000, all with no par value. The total number of shares of preferred stock that the Corporation is authorized to issue is 500,000, all with no par value. The Corporation has created, out of the authorized and unissued shares of preferred stock, a series of the Corporation's preferred stock designated as the "7.50% Non-Cumulative Perpetual Preferred Stock, Series A" (the "Series A Preferred Stock"). The Corporation's common stock is listed on the Nasdaq Global Select Market under the symbol "FRME." The Depositary Shares are listed on the Nasdaq Global Select Market under the symbol "FRMEP." As such, the holders of the Corporation's common stock and the Depositary Shares are generally not restricted on sales of their shares.

Common Stock

Voting Rights. Each share of the Corporation's common stock is entitled to one vote. Directors are elected by a plurality of the votes cast by the shares entitled to vote in an election at a shareholder's meeting at which a quorum is present. Shareholders do not have a right to cumulate their votes for directors. The affirmative vote of a majority of the shares present and voting at a meeting of shareholders, in person or by proxy, is required for approval of all items submitted to the shareholders for consideration other than (i) the election of directors, as described above, which is based on a plurality of votes cast, (ii) certain amendments to the Corporation's Articles of Incorporation, as described below under "Articles of Incorporation and Bylaw Amendments," which require a greater percentage, and (iii) certain transactions involving one or more shareholders owning, directly or indirectly, not less than ten percent (10%) of the Corporation's voting shares (see "Anti-Takeover Provisions" below) or a liquidation or dissolution of the Corporation or any of its material subsidiaries, which, in such cases, requires the affirmative vote of the holders of not less than three-fourths (3/4) of the voting shares of the Corporation.

Dividend Rights. The holders of the Corporation's common stock are entitled to dividends and other distributions when, as and if declared by the Board of Directors of the Corporation (the "Board").

Generally, the Corporation may not pay a dividend if, after giving effect to the dividend:

- the Corporation would not be able to pay its debts as they become due in the usual course of business; or
- the Corporation's total assets would be less than the sum of its total liabilities plus the amount that would be needed to satisfy preferential rights of shareholders payable upon dissolution.

The Corporation's principal source of funds for dividend payments to shareholders is dividends received from First Merchants Bank, the Corporation's wholly-owned bank subsidiary. Banking regulations limit the maximum amount of dividends that a bank may pay without requesting prior approval of regulatory agencies. Under these regulations, the amount of dividends that may be paid in any calendar year is limited to a bank's retained net income (as defined in the regulations) for the current year plus those for the previous two years, subject to the capital requirements described above.

First Merchants Bank will ordinarily be restricted to paying dividends in a lesser amount to the Corporation than is legally permissible because of the need for banks to maintain adequate capital consistent with the capital adequacy guidelines promulgated by the banks' principal federal regulatory authorities. If a bank's capital levels are deemed inadequate by the regulatory authorities, payment of dividends to its parent holding company may be prohibited. First Merchants Bank is not currently subject to such a restriction.

Redemption. Under Indiana law, the Corporation may only redeem or acquire shares of its common stock with funds legally available therefor, and shares so acquired constitute authorized but unissued shares. The Corporation may not redeem or acquire its shares of common stock if, after such redemption, it would not be able to pay its debts as they become due. Additionally, the Corporation may not redeem its shares if its total assets would be less than the sum of its total liabilities plus preferential rights of shareholders payable upon dissolution.

Liquidation Rights. In the event of any liquidation or dissolution of the Corporation, its shareholders are entitled to receive pro rata, according to the number of shares held, any assets distributable to shareholders, subject to the payment of Corporation's liabilities and any rights of creditors and holders of shares of Corporation's preferred stock then outstanding.

Preemptive Rights. The Corporation's Articles of Incorporation do not provide for preemptive rights for shareholders to subscribe for any new or additional shares of common stock.

Articles of Incorporation and Bylaw Amendments. Indiana law generally requires shareholder approval for most amendments to a corporation's articles of incorporation by a majority of a quorum at a shareholder's meeting (and, in certain cases, a majority of all shares held by any voting group entitled to vote). However, Indiana law permits a corporation in its articles of incorporation to specify a higher shareholder vote requirement for certain amendments. The Corporation's Articles of Incorporation require (i) the affirmative vote of three-fourths (3/4) of the outstanding shares of stock of the Corporation entitled to vote for an amendment to certain significant provisions of the Articles of Incorporation (see "Removal of Directors" and "Classification of the Board" below), and (ii) a majority of the Corporation's outstanding shares for all other amendments.

Unless otherwise provided in the Bylaws or in the Articles of Incorporation, the Board, by a majority vote of the actual number of directors elected and qualified, may from time to time make, alter, amend or repeal the Bylaws.

Removal of Directors. The Corporation's Articles of Incorporation and Bylaws provide that any director or all directors may be removed, with or without cause, at a meeting of shareholders upon the vote of the holders of not less than two-thirds (2/3) of the outstanding shares of capital stock entitled to vote on the election of directors. However, if two-thirds (2/3) of the entire Board recommends removal of a director to the shareholders, then such director may be removed by the affirmative vote of the holders of at least a majority of the outstanding shares of capital stock entitled to vote on the election of directors at a shareholders meeting. Amendment of these provisions of the Corporation's Articles of Incorporation requires the affirmative vote of three-fourths (3/4) of the outstanding shares of stock of the Corporation entitled to vote on such amendment. A two-thirds (2/3) vote of the entire Board is required to amend such provisions of the Corporation's Bylaws.

Classification of the Board. The Corporation's Articles of Incorporation and Bylaws provide that the directors of the Board shall be divided into three classes, with the number of directors in each class being as nearly equal as possible and the term for one class expiring at each annual meeting of shareholders (i.e., directors generally serve three-year staggered terms). The directors in each class are eligible for re-election to a new term by the shareholders at the annual meeting held in the year in which the term for their class expires. Amendment of these provisions of the Corporation's Articles of Incorporation requires the affirmative vote of three-fourths (3/4) of the outstanding shares of stock of the Corporation entitled to vote on such amendment. A two-thirds (2/3) vote of the entire Board is required to amend such provisions of the Corporation's Bylaws.

Vacancies occurring between annual meetings caused by a director's resignation, death or other incapacity, or by an increase in the number of directors, may be filled by a majority vote of the remaining members of the Board until the Corporation's next annual meeting of shareholders.

As stated above, the Corporation's shareholders do not have cumulative voting rights in the election of directors.

Anti-Takeover Provisions. The anti-takeover measures described below may have the effect of discouraging a person or other entity from acquiring control of the Corporation. These measures may have the effect of discouraging certain tender offers for shares of the Corporation's common stock which might otherwise be made at premium prices or certain other acquisition transactions which might be viewed favorably by a significant number of shareholders.

Under Indiana law, any ten percent (10%) shareholder of an Indiana corporation, with a class of voting shares registered under Section 12 of the Securities Exchange Act of 1934, as amended, such as the Corporation, is prohibited for a period of five (5) years from completing a business combination with the corporation unless, prior to the acquisition of such ten percent (10%) interest, the Board approved either the acquisition of such interest or the proposed business combination. If such prior approval is not obtained, the corporation and a ten percent (10%) shareholder may not consummate a business combination unless all provisions of the articles of incorporation are complied with and either a majority of disinterested shareholders approve the transaction or all shareholders receive a price per share as determined by Indiana law. A corporation may specifically adopt application of the business combination provision in its articles of incorporation and obtain the protection provided by this provision.

An Indiana corporation may elect to remove itself from the protection provided by the Indiana business combination provision, but such an election remains ineffective for eighteen (18) months and does not apply to a combination with a shareholder who acquired a ten percent (10%) ownership position prior to the election. The Corporation has adopted the protection provided by the business combination provision of Indiana law.

In addition to the business combination provision, Indiana law contains a "control share acquisition" provision which, although different in structure from the business combination provision, may have a similar effect of discouraging or making more difficult a hostile takeover of an Indiana corporation. This provision also may have the effect of discouraging premium bids for outstanding shares.

Under this provision, unless otherwise provided in the corporation's articles of incorporation or bylaws, if a shareholder acquires a certain amount of shares, approval of a majority of the disinterested shareholders must be obtained before the acquiring shareholder may vote the control shares. Under certain circumstances, the shares held by the acquirer may be redeemed by the corporation at the fair market value of the shares as determined by the control share acquisition provision. The Corporation is subject to the control share acquisition provision. The constitutional validity of the control share acquisition statute has been challenged in the past and has been upheld by the United States Supreme Court.

The control share acquisition provision does not apply to a plan of affiliation and merger if the corporation complies with the applicable merger provisions and is a party to the agreement of merger or plan of share exchange.

Series A Preferred Stock

Depositary, Transfer Agent and Registrar. Broadridge Corporate Issuer Solutions, Inc. (the "Depositary") serves as depositary for the Depositary Shares and as transfer agent and registrar for the Series A Preferred Stock and the Depositary Shares. The Depositary is the sole holder of the Series A Preferred Stock. However, the holders of Depositary Shares are entitled, through the Depositary, to exercise the rights and preferences of the holder of the Series A Preferred Stock, as described below.

Dividends. Dividends on the Series A Preferred Stock are discretionary and are not cumulative, and will accrue and be payable only when, as and if declared by the Corporation's board of directors or a duly authorized committee of the Corporation's board of directors out of legally available funds, on a non-cumulative basis on the $2,500 per share liquidation preference, at a rate equal to 7.50% per annum for each quarterly dividend period from the issue date. Dividends will be paid quarterly, in arrears on February 15, May 15, August 15 and November 15 of each year.

Dividends on the Series A Preferred Stock are non-cumulative. If for any reason the Corporation's board of directors or a duly authorized committee of such board does not declare cash dividends on the Series A Preferred Stock for a dividend period (or if less than full dividends for any dividend period are declared), the Corporation will have no obligation to pay any dividends or any additional dividends, as applicable, for that dividend period, whether or not the Corporation's board of directors or a duly authorized committee of such board declares dividends on the Series A Preferred Stock for any subsequent dividend period.

The Corporation is not obligated to and will not pay holders of the Series A Preferred Stock any interest or sum of money in lieu of interest on any dividend not paid on a dividend payment date. The Corporation is also not obligated to and will not pay holders of the Series A Preferred Stock any dividend in excess of the dividends on the Series A Preferred Stock that are payable as described above. There is no sinking fund with respect to dividends.

Dividend Stopper. If full dividends on all outstanding shares of the Series A Preferred Stock for the most recently completed dividend period have not been declared and paid or declared and set aside for payment, the Corporation will be prohibited from declaring or paying dividends (other than a dividend payable solely in junior stock) or other distributions with respect to, or redeeming, purchasing or acquiring any of, the Corporation's junior stock during the next succeeding dividend period, other than:

- redemptions, purchases or other acquisitions of junior stock in connection with any benefit plan or other similar arrangement with or for the benefit of any one or more employees, officers, directors or consultants or in connection with a dividend reinvestment or shareholder stock purchase plan;

- any declaration of a dividend in connection with any shareholders' rights plan, or the issuance of rights, stock or other property under any shareholders' rights plan, or the redemption or repurchase of rights pursuant thereto; and

- conversions into or exchanges for other junior stock and cash solely in lieu of fractional shares of the junior stock.

If dividends for any dividend payment date are not paid in full on the shares of the Series A Preferred Stock and there are issued and outstanding shares of parity stock for which such dividend payment date is also a scheduled dividend payment date, then all dividends declared on shares of the Series A Preferred Stock and such parity stock on such date will be declared pro rata so that the respective amounts of such dividends will bear the same ratio to each other as full dividends (or equivalent) per share on the shares of the Series A Preferred Stock and all such parity stock otherwise payable on such dividend payment date (subject to their having been declared out of legally available funds by the Corporation's board of directors or a duly authorized committee of the Corporation's board of directors and including, in the case of any such parity stock that bears cumulative dividends, all accrued but unpaid dividends) bear to each other.

Subject to the foregoing, dividends (payable in cash, stock, or otherwise) may be declared and paid on the Corporation's junior stock, which includes the Corporation's common stock, from time to time out of any assets legally available for such payment, and the holder of the Series A Preferred Stock or parity stock will not be entitled to participate in any such dividend.

Ranking. The Series A Preferred Stock will rank, with respect to the payment of dividends and distributions upon the Corporation's liquidation, dissolution, or winding-up, (i) senior to the Corporation's common stock and to each class or series of the Corporation's capital stock issued in the future, the terms of which do not expressly provide that it ranks on parity with or senior to the Series A Preferred Stock as to dividend and distribution rights and rights on the Corporation's liquidation, dissolution or winding-up, which the Corporation refers to collectively as the "junior stock," and (ii) on parity with, or equally to, each class or series of capital stock the Corporation may issue in the future, the terms of which expressly provide that it ranks on parity with, or equally to, the Series A Preferred Stock as to dividend and distribution rights and rights upon the Corporation's liquidation, dissolution or winding-up, which the Corporation refers to collectively as "parity stock."

The Corporation will not be entitled to issue any class or series of capital stock, the terms of which provide that such class or series will rank senior to the Series A Preferred Stock as to payment of dividends or distribution of assets upon the Corporation's liquidation, dissolution or winding-up, without the approval of the holders of at least two-thirds of the shares of the Series A Preferred Stock then outstanding and any class or series of parity stock upon which like voting rights have been conferred and are exercisable and are then outstanding, voting together as a single class, with each series or class having a number of votes proportionate to the aggregate liquidation preference of the outstanding shares of such class or series.

The Corporation may, however, from time to time, without notice to or consent from holders of the Series A Preferred Stock, re-open the series and issue additional shares of Series A Preferred Stock and a corresponding number of additional Depositary Shares. All such additional shares of Series A Preferred Stock would be deemed to form a single series with the shares of Series A Preferred Stock relating to the Depositary Shares currently outstanding. In addition, the Corporation may, from time to time, without notice to or consent from holders of the Series A Preferred Stock, create and issue parity stock and junior stock.

Maturity. The Series A Preferred Stock is perpetual and does not have a maturity date. The Corporation is not required to redeem the Series A Preferred Stock. Accordingly, the Series A Preferred Stock and related Depositary Shares will remain outstanding indefinitely, unless and until the Corporation decides to redeem the Series A Preferred Stock.

No Conversion Rights. The Series A Preferred Stock is not convertible into, or exchangeable for, shares of any other class or series of the Corporation's capital stock or other securities.

No Preemptive Rights. The holder of the Series A Preferred Stock does not have any preemptive rights.

Redemption. The Series A Preferred Stock is redeemable by the Corporation, in whole or in part, from time to time, at the Corporation's option on any dividend payment date on or after August 15, 2025, at a redemption price equal to the liquidation preference, plus any declared and unpaid dividends, without accumulation of undeclared dividends. Neither the holder of Series A Preferred Stock nor the holders of Depositary Shares have the right to require the redemption or repurchase of the Series A Preferred Stock or the Depositary Shares.

The Series A Preferred Stock is redeemable by the Corporation, in whole but not in part, at any time within 90 days following a regulatory capital treatment event at a redemption price equal to the liquidation preference, plus any declared and unpaid dividends, without accumulation of any undeclared dividends. A "regulatory capital treatment event" means the Corporation's good-faith determination that, as a result of (i) any amendment to, or change in, the laws, rules or regulations of the United States or any political subdivision of or in the United States (including, for the avoidance of doubt, any agency or instrumentality of the United States, including the Federal Reserve and other appropriate federal bank regulatory agencies) that is enacted or becomes effective after the initial issuance of any share of the Series A Preferred Stock; (ii) any proposed change in those laws, rules or regulations that is announced after the initial issuance of any share of the Series A Preferred Stock; or (iii) any official administrative or judicial decision or administrative action or other official pronouncement interpreting or applying those laws, rules or regulations or policies with respect thereto that is announced or becomes effective after the initial issuance of the Series A Preferred Stock, there is more than an insubstantial risk that the Corporation will not be entitled to treat the full liquidation preferences of the shares of Series A Preferred Stock then outstanding as "Additional Tier 1 Capital" (or its equivalent) for purposes of the capital adequacy standards of Federal Reserve Regulation Q, 12 C.F.R. Part 217 (or, as and if applicable, the successor capital adequacy guidelines, rules or regulations of the Federal Reserve or the capital adequacy guidelines, rules or regulations of any successor appropriate federal banking agency), as then in effect and applicable, for as long as any share of Series A Preferred Stock is outstanding.

The Series A Preferred Stock is not subject to any sinking fund or any other obligation of the Corporation to redeem, repurchase or retire the Series A Preferred Stock.

Liquidation Rights. In the event that the Corporation voluntarily or involuntarily liquidate, dissolve or wind up, the holder of the Series A Preferred Stock at the time outstanding is entitled to receive liquidating distributions in the amount of $2,500 per share of the Series A Preferred Stock (equivalent to $25 per depositary share), plus an amount equal to any declared but unpaid dividends thereon to and including the date of such liquidation without accumulation of any undeclared dividends, out of assets legally available for distribution to the Corporation's shareholders, before any distribution of assets is made to the holders of the Corporation's common stock or any other junior stock. After payment of the full amount of such liquidating distributions, the holder of the Series A Preferred Stock will not be entitled to any further participation in any distribution of assets by the Corporation, and will have no right or claim to any of the Corporation's remaining assets.

In the event that the Corporation's assets available for distribution to shareholders upon any liquidation, dissolution or winding-up of the Corporation's affairs, whether voluntary or involuntary, are insufficient to pay in full the amounts payable with respect to all outstanding shares of the Series A Preferred Stock and the corresponding amounts payable on any parity stock, the holders of the Series A Preferred Stock and the holder of such other parity stock will share ratably in any distribution of the Corporation's assets in proportion to the full respective liquidating distributions to which they would otherwise be respectively entitled.

For such purposes, the Corporation's merger with or into any other entity, the merger of any other entity with or into the Corporation, the Corporation's conversion into another entity, or the sale of all or substantially all of the Corporation's property or business, will not be deemed to constitute the Corporation's liquidation, dissolution, or winding-up.

Voting Rights. Except as indicated below, or as otherwise provided by Indiana law, the holder of the Series A Preferred Stock does not have any voting rights.

If and when the dividends on the Series A Preferred Stock or on any other class or series of the Corporation's parity stock that has voting rights equivalent to those of the Series A Preferred Stock, have not been declared and paid in full for at least six dividend periods or their equivalent (whether or not consecutive), the authorized number of directors then constituting the Corporation's board of directors will be automatically increased by two. In that case, the holder of the Series A Preferred Stock and the holders of all other classes and series of parity stock upon which like voting rights have been conferred and are exercisable and which are entitled to vote for the election of the two additional directors, voting together as a single class, with each series or class having a number of votes proportionate to the aggregate liquidation preference of the outstanding shares of such class or series, are entitled to elect the two additional members of the Corporation's board of directors, which the Corporation refers to as the "Preferred Stock Directors," at any annual or special meeting of shareholders at which directors are to be elected or any special meeting of the holders of the Series A Preferred Stock and any parity stock for which dividends have not been paid, but only if the election of any Preferred Stock Directors would not cause the Corporation to violate the corporate governance requirement of the Nasdaq Global Select Market, or any other exchange on which the Corporation's securities may be listed, that listed companies must have a majority of independent directors. In addition, the Corporation's board of directors will at no time have more than two Preferred Stock Directors.

So long as any shares of the Series A Preferred Stock are outstanding, in addition to any other vote or consent of shareholders required by the Corporation's Articles of Incorporation, the Corporation's Bylaws or Indiana law, or as may be required by the rules of the Nasdaq Global Select Market or any other securities exchange on which the Depositary Shares are listed, the affirmative vote or consent of the holders of at least two-thirds of the outstanding shares of the Series A Preferred Stock and any class or series of parity stock upon which like voting rights have been conferred and are exercisable and are then outstanding, voting together as a single class, with each series or class having a number of votes proportionate to the aggregate liquidation preference of the outstanding shares of such class or series, will be necessary for effecting or validating: (i) any amendment of the Corporation's Articles of Incorporation to authorize, create or designate, or increase the authorized or designated amount of, any shares of any class or series of stock ranking senior to the Series A Preferred Stock with respect to payment of dividends or distribution of assets on the Corporation's liquidation, dissolution or winding up, as well as any amendment of the Corporation's Articles of Incorporation that would alter or change the voting powers, limitations, preferences or relative rights of the Series A Preferred Stock so as to affect them adversely; (ii) any merger of the Corporation with or into any entity other than a corporation (or comparable foreign entity), or (iii) any merger of the Corporation with or into any corporation (or comparable foreign entity) unless either the Series A Preferred Stock remains outstanding following the transaction, or the holder of Series A Preferred Stock is issued a class or series of preferred stock of the surviving or resulting corporation (or comparable foreign entity) or a corporation (or comparable foreign entity) controlling such corporation, having voting powers, preferences and special rights that are substantially identical to those of the Series A Preferred Stock.

Depositary Shares

Depositary and Depositary Shares, Generally. The Depositary serves as depositary for the Depositary Shares and as transfer agent and registrar for the Series A Preferred Stock and the Depositary Shares. Each Depositary Share represents a 1/100th interest in a share of Series A Preferred Stock.

Dividends and Other Distributions. Each dividend payable on a Depositary Share will be in an amount equal to 1/100th of the dividend declared and payable on the shares of Series A Preferred Stock. The Depositary will distribute any cash dividends or other cash distributions received in respect of the deposited Series A Preferred Stock to the record holders of Depositary Shares relating to the underlying Series A Preferred Stock in proportion to the number of Depositary Shares held by the holders. If the Corporation makes a distribution other than in cash, the Depositary will distribute any securities or property received by it to the record holders of Depositary Shares entitled to those distributions, unless it determines that the distribution cannot be made proportionally among those holders or that (after consultation with the Corporation) it is not feasible to make a distribution, in which case the Depositary may, with the Corporation’s approval, adopt a method of distribution that it deems equitable and practicable, including the sale of the securities or property and distribute the net proceeds from the sale to the holders of the Depositary Shares in proportion to the number of Depositary Shares they hold.

Redemption. If the Corporation redeems the Series A Preferred Stock represented by the Depositary Shares, in whole or in part, the Depositary Shares will be redeemed with the proceeds received by the Depositary resulting from the redemption of the Series A Preferred Stock held by the Depositary. The redemption price per Depositary Share will be equal to 1/100th of the redemption price per share payable with respect to the Series A Preferred Stock (or $25 per Depositary Share), plus 1/100th of any declared and unpaid dividends, without accumulation of any undeclared dividends on the shares of the Series A Preferred Stock.

If the Corporation redeems shares of the Series A Preferred Stock held by the Depositary, the Depositary will redeem, as of the same redemption date, the number of Depositary Shares representing those shares of the Series A Preferred Stock so redeemed. If fewer than all of the outstanding Depositary Shares are redeemed, the Depositary will select the shares to be redeemed pro rata or by lot, or by any other equitable method, in each case as the Corporation may determine.

Voting Rights. Because each Depositary Share represents a 1/100th interest in a share of the Series A Preferred Stock, holders of depositary receipts are entitled to 1/100th of a vote per Depositary Share under those limited circumstances in which holders of the Series A Preferred Stock are entitled to a vote.

When the Depositary receives notice of any meeting at which the holders of the Series A Preferred Stock are entitled to vote, the Depositary will provide the information contained in the notice to the record holders of the Depositary Shares. Each record holder of the Depositary Shares on the record date, which will be the same date as the record date for the Series A Preferred Stock, may instruct the Depositary to vote the amount of the Series A Preferred Stock represented by the holder’s Depositary Shares. Insofar as practicable, the Depositary will vote the amount of the Series A Preferred Stock represented by Depositary Shares in accordance with the instructions it receives. The Corporation will agree to take all reasonable actions that the Depositary determines are necessary to enable the Depositary to vote as instructed. If the Depositary does not receive specific instructions from the holders of any Depositary Shares representing proportional interests in the Series A Preferred Stock, it will not vote the amount of the Series A Preferred Stock represented by such Depositary Shares.

No Conversion Rights. The holders of the Depositary Shares do not have any conversion rights.

No Preemptive Rights. The holders of the Depositary Shares do not have any preemptive rights.

EXHIBIT-4.11

FIRST SUPPLEMENTAL INDENTURE

THIS FIRST SUPPLEMENTAL INDENTURE dated as of March 31, 2022 is by and among Wilmington Trust, National Association, a national banking association duly organized and existing under the laws of the United States of America, as Trustee (herein, together with its successors in interest, the "Trustee"), First Merchants Corporation, an Indiana corporation (the "Successor Company"), and Level One Bancorp, Inc., a Michigan corporation (the "Company"), under the Indenture referred to below.

NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by the parties hereto, the Trustee, the Company and the Successor Company hereby agree as follows:

PRELIMINARY STATEMENTS

The Trustee and the Company are parties to that certain Indenture, dated as of December 18, 2019 (the "Indenture"), pursuant to which the Company issued U.S. $30,000,000 of its Fixed-to-Floating Rate Subordinated Notes due 2029 (the "Notes").

As permitted by the terms of the Indenture, the Company shall merge (referred to herein for purposes of Article VII of the Indenture as the "Merger") with and into the Successor Company with the Successor Company as the surviving corporation. The parties hereto are entering into this First Supplemental Indenture pursuant to, and in accordance with, Articles VII and VIII of the Indenture.

SECTION 1. Definitions. All capitalized terms used herein that are defined in the Indenture, either directly or by reference therein, shall have the respective meanings assigned them in the Indenture except as otherwise provided herein or unless the context otherwise requires.

SECTION 2. Interpretation.

a. In this First Supplemental Indenture, unless a clear contrary intention appears:

   i. the singular number includes the plural number and vice versa;

   ii. reference to any gender includes the other gender;

   iii. the words "herein," "hereof," "hereto" and "hereunder" and other words of similar import refer to this First Supplemental Indenture as a whole and not to any particular Section or other subdivision;

   iv. reference to any Person includes such Person's successors and assigns but, if applicable, only if such successors and assigns are permitted by this First Supplemental Indenture or the Indenture, and reference to a Person in a particular capacity excludes such Person in any other capacity or individually provided that nothing in this clause (iv) is intended to authorize any assignment not otherwise permitted by this First Supplemental Indenture or the Indenture;

   v. reference to any agreement, document or instrument means such agreement, document or instrument as amended, supplemented or modified and in effect from time to time in accordance with the terms thereof and, if applicable, the terms hereof, as well as any substitution or replacement therefor and reference to any note includes modifications thereof and any note issued in extension or renewal thereof or in substitution or replacement therefor;

   vi. reference to any Section means such Section of this First Supplemental Indenture; and

   vii. the word "including" (and with correlative meaning "include") means including without limiting the generality of any description preceding such term.

b. No provision in this First Supplemental Indenture shall be interpreted or construed against any Person because that Person or its legal representative drafted such provision.

SECTION 3. Assumption of Obligations.

a. Pursuant to, and in compliance and accordance with, Section 7.01 of the Indenture, the Successor Company hereby expressly assumes the due and punctual payment of the principal of, and interest on, all the Outstanding Notes and any other amounts due under the Indenture or in connection with the Notes, and the due and punctual performance and observance of every obligation in the Indenture and the Outstanding Notes on the part of the Company to be performed or observed under the Indenture.

b. Pursuant to, and in accordance with, Section 7.02 of the Indenture, the Successor Company succeeds to, and is substituted for, and may exercise every right and power of, the Company under the Indenture, with the same effect as if the Successor Company had originally been named as the Company therein.

SECTION 4. **Representations and Warranties.** The Successor Company represents and warrants that (a) it has all necessary power and authority to execute and deliver this First Supplemental Indenture and to perform the Indenture, (b) it is the successor of the Company pursuant to the Merger effected in accordance with applicable law, (c) it is a corporation organized and existing under the laws of the State of Indiana, (d) immediately after giving effect to the Merger and this First Supplemental Indenture, no Event of Default, and no event which, after notice or lapse of time, or both, would become an Event of Default, has occurred and is continuing, and (e) this First Supplemental Indenture is executed and delivered pursuant to Section 8.01 of the Indenture and does not require the consent of the Holders.

SECTION 5. **Conditions of Effectiveness.** This First Supplemental Indenture shall become effective simultaneously with the effectiveness of the Merger, provided, however, that:

a. the Trustee shall have executed a counterpart of this First Supplemental Indenture and shall have received one or more counterparts of this First Supplemental Indenture executed by the Successor Company and the Company;

b. the Trustee shall have received an Officers' Certificate stating that (i) the Merger and this First Supplemental Indenture comply with the requirements of Article VII of the Indenture; and (ii) all conditions precedent provided for in the Indenture relating to the Merger and this First Supplemental Indenture have been complied with;

c. the Trustee shall have received an Opinion of Counsel to the effect that (i) the Merger and this First Supplemental Indenture comply with the requirements of Article VII of the Indenture; (ii) all conditions precedent provided for in the Indenture relating to the Merger and this First Supplemental Indenture have been complied with; (iii) the Trustee's execution of this First Supplemental Indenture is authorized or permitted by Article VII of the Indenture; and (iv) this First Supplemental Indenture has been duly authorized, executed and delivered by, and is a valid, binding and enforceable obligation of, the Company, subject to customary exceptions; and

d. the Successor Company and the Company shall have duly executed and filed Articles of Merger with each of the Indiana Secretary of State and the Michigan Secretary of State in connection with the Merger.

SECTION 6. **Reference to the Indenture.**

a. Upon the effectiveness of this First Supplemental Indenture, each reference in the Indenture to "this Indenture," "hereunder," "herein" or words of like import shall mean and be a reference to the Indenture, as affected, amended and supplemented hereby.

b. Upon the effectiveness of this First Supplemental Indenture, each reference in the Notes to the Indenture including each term defined by reference to the Indenture shall mean and be a reference to the Indenture or such term, as the case may be, as affected, amended and supplemented hereby.

c. The Indenture, as amended and supplemented hereby shall remain in full force and effect and is hereby ratified and confirmed.

SECTION 7. Execution in Counterparts. This First Supplemental Indenture may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed to be an original and all of which when taken together shall constitute but one and the same instrument.

SECTION 8. **Governing Law; Binding Effect.** This First Supplemental Indenture shall be governed by and construed in accordance with the laws of the State of New York and shall be binding upon the parties hereto and their respective successors and assigns.

SECTION 9. **The Trustee.** The Trustee shall not be responsible in any manner whatsoever for or in respect of the validity or sufficiency of this First Supplemental Indenture or the due execution thereof by the Company or the Successor Company. The recitals of fact contained herein shall be taken as the statements solely of the Company or the Successor Company, and the Trustee assumes no responsibility for the correctness thereof. Furthermore, the rights and protections afforded the Trustee under the Indenture shall apply to the execution and performance hereof by the Trustee.

[Signatures on following page]

IN WITNESS WHEREOF, the parties hereto have caused this First Supplemental Indenture to be duly executed as of the day and year first written above.

LEVEL ONE BANCORP, INC.

By: /s/ Patrick J. Fehring
Name: Patrick J. Fehring
Title: Chief Executive Officer

FIRST MERCHANTS CORPORATION

By: /s/ Michele M. Kawiecki
Name: Michele M. Kawiecki
Title: Executive Vice President and Chief Financial Officer

WILMINGTON TRUST, NATIONAL ASSOCIATION,

By: /s/ Arlene Thelwell
Name: Arlene Thelwell
Title: Vice President

EXHIBIT-10.18

AMENDMENT TO CONSULTING AGREEMENT

This Amendment to Consulting Agreement (this “Amendment”) is made and entered into this 1st day of January, 2023, by and between Michael C. Rechin (“Rechin”) and First Merchants Corporation (“FMC”).

WHEREAS, Rechin and FMC entered into that certain Consulting Agreement, with a term commencing on January 1, 2021 and ending on December 31, 2022 (the “Consulting Agreement”), pursuant to which Rechin agreed to provide certain services to FMC as a nonemployee consultant; and

WHEREAS, to preserve continuity until the conclusion of 2023, the parties have agreed to extend the Term of, and otherwise amend, the Consulting Agreement in accordance with the terms and conditions of this Amendment.

NOW, THEREFORE, in consideration of the mutual understandings, promises and covenants contained herein, Rechin and FMC hereby agree as follows:

1. Defined Terms. All capitalized terms used but not defined in this Amendment shall have the same meanings as those ascribed to them in the Consulting Agreement.

2. Amendments to Consulting Agreement. The parties hereby agree to amend the Consulting Agreement as follows:

(a) Term. Section 2 of the Consulting Agreement is hereby amended to extend the Term to a date expiring, without further notice, as of December 31, 2023.

(b) Compensation for Services. Section 3 of the Consulting Agreement shall be amended and restated in its entirety as follows:

“As consideration for his Services, FMC shall compensate Rechin as follows: (a) if Rechin continues to elect COBRA coverage under FMC’s healthcare plan following his retirement for his (and his immediate family’s) benefit, FMC shall pay one hundred percent (100%) of the premiums for such coverage for the maximum period allowed by statute; thereafter, FMC shall obtain and pay one hundred percent (100%) of the premiums for the same (or as similar as possible) coverage for Rechin (and his spouse) under another healthcare plan until Rechin (and his spouse) become eligible for Medicare; (b) during the Term, FMC shall provide Rechin administrative and secretarial assistance for work related to his Services; (c) for the Term, FMC shall pay the membership dues in the country club where Rechin is currently a member; and (d) during the Term, FMC shall continue to give Rechin access to his FMC email account for him to use for personal emails and emails for work related to his Services. Except as specifically set forth herein, other than payment of the retirement benefits to which Rechin is entitled as a participant in FMC’s retirement plans, Rechin’s employment benefits ceased as of his Retirement Date, or as otherwise provided under FMC’s benefit plans. Rechin shall be solely responsible for the payment of all applicable federal, state and local income taxes, social security and Medicare taxes, unemployment, worker’s compensation and other insurance contributions, and any other payroll taxes or payroll deductions with respect to the compensation payable to Rechin for his Services under this Agreement. FMC and Rechin agree that FMC will not provide an office to Rechin after his Retirement Date.”

(c) Service on Board of Directors. Section 6 of the Consulting Agreement shall be amended and restated in its entirety as follows:

“Rechin’s current term as an FMC Director is set to expire as of FMC’s 2025 Annual Meeting of Shareholders. Rechin may continue that service as a paid Director notwithstanding the terms of this Agreement. As with other Directors, FMC’s Nominating and Governance Committee will consider whether or not to further nominate Rechin as a Director following the expiration of his current term. While Rechin is serving as an FMC Director, he shall also be nominated and elected annually to serve as a Director of First Merchants Bank.”

3. No Modification. This Amendment is subject in all respects to the provisions of the Consulting Agreement and is not meant to alter, enlarge, or otherwise modify the provisions of the Consulting Agreement except as expressly set forth herein. In the event of any conflict between the terms of the Consulting Agreement and this Amendment, the terms of this Amendment shall prevail and control in the interpretation, operation and effect thereof. Except as expressly modified in this Amendment, the Consulting Agreement shall remain in full force and effect and is expressly ratified and confirmed by the parties hereto.

4. Applicable Law. This Amendment is made and entered into in the State of Indiana and shall in all respects be interpreted, enforced and governed under the laws of that State.

5. Counterparts. This Amendment may be executed in counterparts, each of which shall be an original and all of which counterparts taken together shall constitute one and the same agreement. Facsimiles of the executed copies of this Amendment may be delivered to the parties by facsimile transmission or email and, upon receipt, shall be deemed delivery of an original and binding upon the parties hereto.

IN WITNESS WHEREOF, the parties have entered into this Amendment as of the date first written above.

Date: December 24, 2022

By: /s/ Michael C. Rechin
Michael C. Rechin

Date: January 5, 2023

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

EXHIBIT-21
SUBSIDIARIES OF THE REGISTRANT

EXHIBIT 21-SUBSIDIARIES OF THE REGISTRANT

Name	Jurisdiction of Incorporation
First Merchants Bank	U.S.
FMB Portfolio Management, Inc.	Delaware
FMB Properties, Inc	Maryland
FMB Risk Management, Inc.	Nevada
First Merchants Capital Trust II	Delaware
Ameriana Capital Trust	Delaware
FMB Tax Credit Holdings I, LLC	Indiana
Property Management Advisors, Inc.	Michigan

EXHIBIT-23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements on Form S-8 (File Nos. 333-159643, 333-219924, 333-232362), Form S-4 (333-261869), and Form S-3 (333-263584) of First Merchants Corporation (Corporation) of our reports dated March 1, 2023, on our audits of the consolidated financial statements of the Corporation as of December 31, 2022 and 2021, and for each of the three years in the period ended December 31, 2022, which report is included in this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report dated March 1, 2023, on our audit of the internal control over financial reporting of the Corporation as of December 31, 2022, which report is included in this Annual Report on Form 10-K.

FORVIS, LLP
(Formerly BKD, LLP)

Indianapolis, Indiana
March 1, 2023

EXHIBIT-24
LIMITED POWER OF ATTORNEY

EXHIBIT 24-LIMITED POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS that the undersigned directors and officers of First Merchants Corporation, an Indiana corporation, hereby constitute and appoint Michele M. Kawiecki, the true and lawful agent and attorney-in-fact of the undersigned with full power and authority in said agent and attorney-in-fact to sign for the undersigned and in their respective names as directors and officers of the Corporation the Form 10-K of the Corporation to be filed with the Securities and Exchange Commission, Washington, D.C., under the Securities Exchange Act of 1934, as amended, and to sign any amendment to such Form 10-K, hereby ratifying and confirming all acts taken by such agent and attorney-in-fact, as herein authorized.

Dated: March 1, 2023

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

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

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

/s/ Kevin D. Johnson*
Kevin D. Johnson, Director

/s/ Susan W. Brooks*
Susan W. Brooks, Director

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

/s/ Patrick J. Fehring*
Patrick J. Fehring, Director

/s/ Gary J. Lehman*
Gary J. Lehman, Director

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

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

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

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

/s/ Mark K. Hardwick*
Mark K. Hardwick, Director

/s/ Jason R. Sondhi*
Jason R. Sondhi, Director

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

/s/ Jean L. Wojtowicz*
Jean L. Wojtowicz, Director

EXHIBIT-31.1

FIRST MERCHANTS CORPORATION

FORM 10-K
CERTIFICATION 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 Annual Report on Form 10-K of First Merchants Corporation;

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

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

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

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

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

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

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

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

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

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

Date: March 1, 2023

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

EXHIBIT-31.2

FIRST MERCHANTS CORPORATION

FORM 10-K
CERTIFICATION PURSUANT TO
SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002

CERTIFICATION

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

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

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

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

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

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

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

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

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

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

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

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

Date: March 1, 2023

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 annual report of First Merchants Corporation (the “Corporation”) on Form 10-K for the period ending December 31, 2022 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Mark Hardwick, Chief Executive Officer of the Corporation, do hereby certify, in accordance with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o (d)); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

Date: March 1, 2023 By: /s/ Mark K. Hardwick
Mark K. Hardwick
Chief Executive Officer
(Principal Executive Officer)

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

In connection with the annual report of First Merchants Corporation (the “Corporation”) on Form 10-K for the period ending December 31, 2022 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Michele Kawiecki, Executive Vice President and Chief Financial Officer of the Corporation, do hereby certify, in accordance with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o (d)); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

Date: March 1, 2023 By: /s/ Michele M. Kawiecki
Michele M. Kawiecki
Executive Vice President,
Chief Financial Officer
(Principal Financial and Accounting Officer)

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