

# FIRST MERCHANTS CORPORATION

## AUDIT COMMITTEE CHARTER

### Purpose

The purpose of the Audit Committee (the "Committee") of the Board of Directors (the "Board") of First Merchants Corporation (the Corporation) is to assist the Board in its oversight of:

- (1) the integrity of Corporation's financial statements and the Corporation's system of internal controls over financial reporting;
- (2) the Corporation's compliance with legal and regulatory requirements related to financial reporting and disclosure;
- (3) the independence, qualifications, and performance of the Corporation's independent registered public accounting firm (the "independent auditors");
- (4) the ethics and integrity risks of the Corporation; and
- (5) the independence, qualifications, and performance of the Corporation's internal audit and loan review functions (the "Internal Audit activity").

### Committee Authority

The Committee's authority includes:

- To conduct or authorize investigations into matters within the Committee's scope of responsibilities. The Committee is authorized to retain independent counsel, accountants or other advisors as it deems necessary to carry out its duties.
- To meet with and seek any information it requires from employees, officers, directors, or external parties.
- To the extent permitted by applicable regulations and listing requirements, obtain assistance from management or staff in accomplishing these responsibilities.
- Provide appropriate funding, as determined by the Audit Committee, for compensation to the independent auditors, Internal Audit activity any advisors that the Audit Committee chooses to engage, and for payment of ordinary administrative expenses of the Audit Committee that are necessary or appropriate in carrying out its duties.

### Committee Responsibilities

The Audit Committee's principal responsibility is one of oversight. The fundamental responsibility for the Corporation's financial statements and disclosures rests with management and the independent auditors. To fulfill its responsibilities, the Audit Committee will oversee several areas as listed below.

### Independent auditors

- Sole authority and responsibility to appoint (and recommend that the Board submit for shareholder ratification), compensate, retain, oversee, and terminate the Corporation's independent auditors and any other independent registered public accounting firm retained for the purpose of preparing or issuing an audit report or performing other audit, review, or attestation services for the Corporation. The Committee shall also be responsible for the resolution of disagreements between management and the independent auditors regarding financial reporting;

- Review and pre-approve (which may be pursuant to preapproval policies and procedures) both audit and non-audit services, including fees and terms, to be provided by the independent auditors. The Committee shall consider whether the auditor's provision of permissible non-audit services is consistent with the auditors' independence. The authority to pre-approve non-audit engagements may be assigned to any Audit Committee member with communication to, and ratification of, the full Committee at the subsequent meeting;
- Review the experience, qualifications, performance and independence of the independent auditors and the lead partner at least annually;
- Assess, at least annually, the independence of the independent auditors, including that of the independent auditor's lead partner, based on a review of a written report by the independent auditors. The written report will include the following:
  - a. the independent auditor's internal quality control procedures;
  - b. any material issues raised by the most recent internal quality control review, or peer review, or by any inquiry or investigation by governmental or professional authorities (including PCAOB inspection results) in the preceding five years ;
  - c. any steps taken to deal with such issues;
  - d. all relationships between the independent auditors and the Corporation; and
  - e. any other relationships that may adversely affect the independence of the auditor.
- Assure that all partner rotation requirements, as promulgated by applicable rules and regulations, are executed;
- Review and discuss with the independent auditors, the audit planning and procedures, including the scope, fees, staffing and timing of the audit; review and discuss the results of the audit exam and management letters, and any reports of the independent auditors;
- Review with the independent auditors any problems or difficulties and management's response;
- Review and discuss with the independent auditors:
  - a. accounting policies and practices, financial reporting issues and judgments that may be viewed as critical;
  - b. analyses prepared by management and/or the independent auditors over significant financial reporting issues affecting the preparation of financial statements, including analyses of the effects of alternative GAAP methods, and significant estimates and judgements made in the preparation of the financial statements;
  - c. any significant changes in the Corporation's accounting and auditing policies and provide approval, when appropriate;
  - d. financial statement impact of any significant, complex and/or unusual transactions;
  - e. any material financial or non-financial arrangements of the Corporation which do not appear on the financial statements of the Corporation;
  - f. critical audit matters (CAMs) as defined by the PCAOB; and

- g. reports and communications with audit committees required by the standards of the PCAOB.

#### Financial reporting and internal controls

The Committee will review and/or discuss the following with management, the Chief Audit Executive and the independent auditors:

- The annual audited and quarterly unaudited financial statements, including disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations," and recommend to the Board whether the audited financial statements should be included in the Corporation's annual reports on Form 10-K and quarterly reports on Form 10-Q as well as all internal control reports (or summaries thereof);
- Other relevant reports or financial information submitted by the Corporation to any governmental body or the public;
- Policies and practices regarding earnings press releases, as well as financial information given to analysts and ratings agencies, giving attention to any use of "pro forma", "adjusted" or "non-GAAP financial measures" or information. Such discussions may be in general terms (i.e. discussion of the types of information to be disclosed and the type of presentations to be made);
- Reports or other communications prepared by management, Internal Audit, independent auditors, regulatory agencies, or other external parties engaged to assess the adequacy of the Corporation's risk assessment and risk management processes, policies and guidelines, including any significant weaknesses in the system of internal control for detecting and reporting financial errors, defalcations, legal violations, and noncompliance with the Corporation's Code of Conduct;
- Disclosures from the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) made in connection with the certification of the Corporation's quarterly and annual reports filed with the SEC of any fraud, whether or not material, that involves management or other employees who have a significant role in the Corporation's internal controls;
- Management's responses indicating action taken to address any weaknesses or deficiencies identified;
- Regulatory, accounting and financial reporting proposals and/or initiatives in order to determine the impact on the Corporation's financial statements;
- Any accounting adjustments that were noted or proposed by the independent auditors but were "passed" (as immaterial or otherwise);
- Auditing or accounting issues presented by the independent auditors' engagement as highlighted by the national office;
- Reports from the independent auditors pursuant to Section 10A (b) of the Securities Exchange Act required when the independent auditors detect or otherwise becomes aware of information indicating that an illegal act (whether or

not perceived to have a material effect on the financial statements of the Corporation) has or may have occurred;

- Any correspondence or reports from regulators or governmental agencies, management, Internal Audit, and employee complaints which raise material issues regarding the Corporation's financial statements or accounting policies or violations of the Code of Conduct.

#### Internal Audit Activity

The Committee shall also have the responsibility to:

- Sole authority to appoint, replace, reassign or dismiss the Chief Audit Executive of the Corporation's Internal Audit activity and the outsourced internal audit activity service providers. The Chief Audit Executive shall report directly to the Committee (and to the Chief Executive Officer for administrative purposes);
- Review and approve annually the Chief Audit Executive's performance evaluation and compensation.
- Oversee the Internal Audit activity of the Corporation and annually approve the Internal Audit Charter;
- Review and approve, at least annually, the risk assessment and annual internal audit plan, prepared by Internal Audit;
- Discuss with the Chief Audit Executive the Internal Audit activity's budget, staffing, annual risk assessment and resulting audit and loan review plans and approve any recommended changes in the plans scope;
- Review with the Chief Audit Executive and the independent auditors the coordination of their audit efforts to assure completeness of coverage, reduction of redundant efforts and effective use of audit resources;
- Periodically review, with the Chief Audit Executive, any significant difficulties, disagreements with management, or scope restrictions encountered in the course of the Internal Audit activity's work;
- Review the regular internal reports to management (or summaries thereof) prepared by Internal Audit, as well as management's response;
- Review reports on loan review results prepared by the Director, Loan Review;
- Review and discuss with the Chief Audit Executive any quality control assessments completed on the Internal Audit activity;
- Perform an annual assessment of the Internal Audit department giving consideration to the rules and expectations of regulators and professional standards established for internal auditors;

#### Other Responsibilities

- Confirm, at least annually, that all responsibilities outlined in this Charter are completed;

- Review and assess annually the adequacy of this Charter and recommend any proposed changes to the Board for approval;
- Report its activities to the Board of Directors on a regular basis;
- Approve the report of the Committee required by the rules of the Securities and Exchange Commission to be included in the Corporation's annual proxy statement;
- Conduct a self-assessment of the Committee's effectiveness at least every year;
- Provide an open independent avenue of communication among management, the internal audit activity, the independent auditors, and the Board of Directors;
- Monitor the Corporation's Contributions and Sponsorships;
- Review the process for:
  - a. the receipt, retention, and treatment of complaints received by the Corporation regarding accounting, internal accounting controls, or auditing matters;
  - b. the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters in accordance with the Ethics & Integrity Policy; and
  - c. the reporting and resolution of illegal acts and Code of Conduct matters.
- Review and discuss with management and the independent auditors:
  - a. any transactions or dealings with parties related to the Corporation which transactions are significant in size or involve terms or other aspects that differ from those that would likely be negotiated with independent parties, and which are relevant to an understanding of the Corporation's financial statements; and
  - b. the business rationale for significant related party transactions and whether they have been properly disclosed.
- Review management's report concerning affiliated party transactions and any identified or suspected fraud or illegal acts regardless of the dollar value or position level;
- Review and approve the hiring of employees or former employees from the independent auditors for any Senior Financial Officer position as defined in the "Code of Ethics for First Merchants Corporation Financial Management";
- Review any material pending legal proceedings involving the Corporation and other contingent liabilities; discuss with the Corporation's in-house Counsel legal matters that may have a material impact on the financial statements or the Corporation's compliance policies.

#### **Limitation of Audit Committee's Role**

In carrying out their duties and responsibilities, the members of the Committee serve in an oversight function, and the Committee relies on the expertise and knowledge of management, the independent auditors, internal auditors, and loan review personnel.

It is management's responsibility to maintain appropriate systems for accounting and internal controls over financial reporting, and the independent auditor's responsibility to plan and carry out a proper audit. Specifically, management is responsible for: (1) the preparation, presentation and integrity of the Corporation's financial statements; (2) the maintenance of appropriate accounting and financial reporting principles and policies; and (3) the maintenance of internal controls over financial reporting and other procedures designed to assure compliance with accounting standards and related laws and regulations. The independent auditors are responsible for planning and carrying out an audit consistent with applicable legal and professional standards and the terms of their engagement letter. Nothing in this Charter shall be construed to reduce the responsibilities or liabilities of the Corporation's service providers, including the independent auditors.

Although the Committee is expected to take a detached and questioning approach to the matters that come before it, the review of the Corporation's financial statements by the Committee is not an audit, nor does the Committee's review substitute for the responsibilities of the Corporation's management for preparing, or the independent auditors for auditing, the financial statements. It is not the duty or responsibility of the Committee or its members to conduct field work or other types of auditing or accounting reviews or procedures.

In discharging their duties, members of the Committee are entitled to rely on information, opinions, reports or statements, including financial statements and other financial data, if prepared or presented by: (1) one or more officers of the Corporation whom the director reasonably believes to be reliable and competent in the matters presented; (2) legal counsel, the independent auditors, or others persons as to matters the director reasonably believes are within the person's professional or expert competence; or (3) a committee of the Board of which the director is not a member.

### **Consistency with the Corporation**

To the extent that any provision or section of this Charter may be inconsistent with any article, provision or section of the Articles of Incorporation, the Bylaws of the Corporation, or any applicable law or regulation, the Articles or the Bylaws or the law or regulation, as appropriate, will fully control.

### **Selection and Composition**

The Committee shall consist of three or more members of the Board, each of whom the Board has determined to be "independent" under the rules of the NASDAQ Stock Market and to meet all other requirements for audit committee members under those rules, the rules and regulations of the U.S. Securities and Exchange Commission (the SEC), the Sarbanes-Oxley Act of 2002 (the Sarbanes-Oxley Act) and other applicable laws and regulations.

The members of the Committee and the Committee chairperson will be appointed by the Board based on nomination recommended by the Board's Nominating & Governance Committee and may be removed by the Board. The members of the Committee will be approved annually by the Board of Directors.

All members of the Committee must comply with all financial literacy requirements of each securities exchange on which the Corporation is listed. All members of the Committee will be "financially literate" as interpreted by the Board of Directors in compliance with the

rules of NASDAQ. At least two members of the Committee must be an audit committee financial expert, as defined by the Securities and Exchange Commission and FDIC 363.5 Appendix A section 32.

No member of the Audit Committee may serve on the audit committees of more than three public companies unless the Board determines that such simultaneous service would not impair the ability of such member to effectively serve on the Corporation's Audit Committee.

The duties and responsibilities of Audit Committee members contained herein will be in addition to those duties otherwise required for members of the Board.

### **Quorum**

A majority of the Members on the Audit Committee shall constitute a quorum at any meeting, except when otherwise provided by law, or the Bylaws, but a lesser number may adjourn any meeting, from time to time, and the meeting may be held, as adjourned, without further notice. If the number of Members is below the number that would constitute a quorum, no business may be transacted. If a quorum is present, the Committee may take action through the vote of a majority of the Members who are in attendance.

### **Meetings**

The Audit Committee will meet at least four times a year, or more often as circumstances dictate. This could be in person or by conference telephone call, video conference or similar means of remote communication. The Committee may also act by unanimous written consent if a meeting is not possible or the matter under consideration can be voted upon by such written consent. The Committee may ask members of management or others to attend the meeting and is authorized to receive all pertinent information from management as determined by the Committee. Briefing materials will be provided to the Committee as far in advance of meetings as practicable. The Committee will meet with the independent auditors, management, internal audit, and loan review in separate executive sessions to discuss any matters that the Committee or each of these groups believes should be discussed privately.

Minutes of meetings will be prepared and, after review and approval by the Committee, will be submitted to the Board of Directors for their review.