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

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

SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2021
OR
☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from _______ to _______

Commission File Number 0-17071

FIRST MERCHANTS CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

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

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

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

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

As of August 4, 2021, there were 54,163,660 outstanding common shares of the registrant.

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GLOSSARY OF DEFINED TERMS

FIRST MERCHANTS CORPORATION

ACL	Allowance for Credit Losses
Ameribor	The American interbank offered rate, a potential replacement for LIBOR, is a benchmark interest rate calculated as a volume-weighted average of the daily transactions in overnight unsecured loans on the American Financial Exchange, LLC, a self-regulated electronic exchange for direct lending by American banks and financial institutions.
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
Bank	First Merchants Bank, a wholly-owned subsidiary of the Corporation
CAA	The 2021 Consolidated Appropriations Act, signed into law on December 27, 2020, which included the Economic Aid to Hard-Hit-Small Businesses, Nonprofits, and Venues Act, amending the CARES Act.
CARES Act	Coronavirus Aid, Relief and Economic Security Act
CECL	Current expected credit losses
CET1	Common Equity Tier 1
Corporation	First Merchants Corporation
COVID or COVID-19	2019 novel coronavirus disease, which was declared a pandemic by the World Health Organization on March 11, 2020.
Durbin Amendment	An amendment to the Dodd-Frank Wall Street Reform and Consumer Protection Act that requires interchange fees for certain electronic debit transactions be “reasonable and proportional” to the costs incurred by issuers for processing such transactions.
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.
ESPP	Employee Stock Purchase Plan
FASB	Financial Accounting Standards Board
FDIC	Federal Deposit Insurance Corporation
Federal Reserve	Board of Governors of the Federal Reserve System
FHLB	Federal Home Loan Bank
FOMC	Federal Open Market Committee, the monetary policymaking body of the Federal Reserve System.
FTE	Fully taxable equivalent
GAAP	U.S. Generally Accepted Accounting Principles
Hoosier	Hoosier Trust Company, which was acquired by the Bank on April 1, 2021.
IRS	Internal Revenue Service
OREO	Other real estate owned
PPP	Paycheck Protection Program, which was established by the CARES Act and implemented by the Small Business Administration to provide small business loans.
PPPL Facility	Paycheck Protection Program Liquidity Facility, which was established by the Federal Reserve to provide funds to eligible financial institutions, such as the Bank, for purposes of making loans under the PPP.
RSA	Restricted Stock Awards
TEFRA	Tax Equity and Fiscal Responsibility Act

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

CONSOLIDATED CONDENSED BALANCE SHEETS

	June 30, 2021	December 31, 2020
	(Unaudited)	
ASSETS		
Cash and cash equivalents	$ 167,596	$ 192,896
Interest-bearing deposits	438,863	392,305
Investment securities available for sale	2,426,900	1,919,119
Investment securities held to maturity, net of allowance for credit losses of $245 and $0 (fair value of $1,760,847 and $1,280,293)	1,721,414	1,227,668
Loans held for sale	18,582	3,966
Loans	9,121,250	9,243,174
Less: Allowance for credit losses - loans [1]	(199,775)	(130,648)
Net loans	8,921,475	9,112,526
Premises and equipment	103,822	111,062
Federal Home Loan Bank stock	28,736	28,736
Interest receivable	54,173	53,948
Goodwill	545,385	543,918
Other intangibles	28,401	28,975
Cash surrender value of life insurance	294,462	292,745
Other real estate owned	601	940
Tax asset, deferred and receivable	36,924	12,340
Other assets	135,763	146,066
TOTAL ASSETS	$ 14,923,097	$ 14,067,210
LIABILITIES		
Deposits:		
Noninterest-bearing	$ 2,479,853	$ 2,298,138
Interest-bearing	9,723,547	9,063,472
Total Deposits	12,203,400	11,361,610
Borrowings:		
Securities sold under repurchase agreements	146,904	177,102
Federal Home Loan Bank advances	334,243	389,430
Subordinated debentures and other borrowings	118,498	118,380
Total Borrowings	599,645	684,912
Interest payable	2,929	3,287
Other liabilities	245,323	141,756
Total Liabilities	13,051,297	12,191,565
COMMITMENTS AND CONTINGENT LIABILITIES		
STOCKHOLDERS' EQUITY		
Cumulative Preferred Stock, $1,000 par value, $1,000 liquidation value:		
Authorized - 600 shares		
Issued and outstanding - 125 shares	125	125
Common Stock, $0.125 stated value:		
Authorized - 100,000,000 shares		
Issued and outstanding - 53,972,386 and 53,922,359 shares	6,747	6,740
Additional paid-in capital	1,009,182	1,005,366
Retained earnings	795,666	788,578
Accumulated other comprehensive income	60,080	74,836
Total Stockholders' Equity	1,871,800	1,875,645
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 14,923,097	$ 14,067,210

[1] Beginning January 1, 2021, the amount is based on the current expected credit loss methodology. Prior to January 1, 2021, the amount is based on the incurred loss methodology. See additional details in NOTE 1. GENERAL of these Notes to Consolidated Condensed Financial Statement.

See NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS.

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

CONSOLIDATED CONDENSED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
INTEREST INCOME				
Loans receivable:				
Taxable	$ 87,002	$ 87,312	$ 172,107	$ 183,964
Tax exempt	5,545	5,359	10,884	10,674
Investment securities:				
Taxable	7,440	6,147	14,135	13,778
Tax exempt	13,071	10,019	25,456	19,354
Deposits with financial institutions	129	134	243	709
Federal Home Loan Bank stock	88	281	266	580
Total Interest Income	113,275	109,252	223,091	229,059
INTEREST EXPENSE				
Deposits	5,823	12,707	12,023	34,455
Federal funds purchased	2	2	4	113
Securities sold under repurchase agreements	75	92	162	444
Federal Home Loan Bank advances	1,452	1,794	2,894	3,568
Subordinated debentures and other borrowings	1,659	1,639	3,316	3,584
Total Interest Expense	9,011	16,234	18,399	42,164
NET INTEREST INCOME	104,264	93,018	204,692	186,895
Provision for credit losses - loans	—	21,895	—	41,647
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	104,264	71,123	204,692	145,248
OTHER INCOME				
Service charges on deposit accounts	5,596	4,312	10,860	10,282
Fiduciary and wealth management fees	7,510	5,601	13,932	11,586
Card payment fees	4,159	6,097	8,526	12,004
Net gains and fees on sales of loans	8,325	3,674	12,311	7,037
Derivative hedge fees	943	1,042	1,260	2,981
Other customer fees	368	333	736	731
Increase in cash surrender value of life insurance	1,205	1,231	2,394	2,591
Gains on life insurance benefits	—	95	147	95
Net realized gains on sales of available for sale securities	1,761	3,068	3,560	7,680
Other income	1,017	1,028	1,249	1,293
Total Other Income	30,884	26,481	54,975	56,280
OTHER EXPENSES				
Salaries and employee benefits	42,438	35,698	81,249	74,941
Net occupancy	5,615	5,447	12,106	11,248
Equipment	4,848	4,489	9,878	8,833
Marketing	1,122	2,092	2,246	3,535
Outside data processing fees	4,698	2,618	8,942	6,817
Printing and office supplies	313	279	596	666
Intangible asset amortization	1,464	1,511	2,821	3,025
FDIC assessments	1,461	1,472	2,829	2,995
Other real estate owned and foreclosure expenses	178	684	912	1,189
Professional and other outside services	2,976	1,553	5,519	3,811
Other expenses	4,182	4,146	8,295	9,100
Total Other Expenses	69,295	59,989	135,393	126,160
INCOME BEFORE INCOME TAX	65,853	37,615	124,274	75,368
Income tax expense	10,294	4,623	19,246	8,113
NET INCOME AVAILABLE TO COMMON STOCKHOLDERS	$ 55,559	$ 32,992	$ 105,028	$ 67,255
Per Share Data:				
Basic Net Income Available to Common Stockholders	$ 1.03	$ 0.62	$ 1.95	$ 1.24
Diluted Net Income Available to Common Stockholders	$ 1.03	$ 0.62	$ 1.94	$ 1.24
Cash Dividends Paid	$ 0.29	$ 0.26	$ 0.55	$ 0.52
Average Diluted Shares Outstanding (in thousands)	54,184	53,943	54,159	54,430

See NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS.

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

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	**2020**	**2021**	**2020**
Net income	$ 55,559	$ 32,992	$ 105,028	$ 67,255
Other comprehensive income (loss):				
Unrealized gains/losses on securities available-for-sale:				
Unrealized holding gain (loss) arising during the period	32,238	15,880	(15,673)	54,315
Reclassification adjustment for losses (gains) included in net income	(1,761)	(3,068)	(3,560)	(7,680)
Tax effect	(6,400)	(2,691)	4,039	(9,793)
Net of tax	24,077	10,121	(15,194)	36,842
Unrealized gain/loss on cash flow hedges:				
Unrealized holding gain (loss) arising during the period	(16)	(145)	42	(1,459)
Reclassification adjustment for losses (gains) included in net income	260	231	513	357
Tax effect	(51)	(18)	(117)	231
Net of tax	193	68	438	(871)
Total other comprehensive income (loss), net of tax	24,270	10,189	(14,756)	35,971
Comprehensive income	$ 79,829	$ 43,181	$ 90,272	$ 103,226

See NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS.

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

CONSOLIDATED CONDENSED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)

	Three Months Ended June 30, 2021							
	Preferred		Common Stock		Additional		Accumulated Other	
	Shares	Amount	Shares	Amount	Paid in Capital	Retained Earnings	Comprehensive Income	Total
Balance, March 31, 2021	125	$ 125	53,953,723	$ 6,744	$ 1,007,300	$ 755,877	$ 35,810	$ 1,805,856
Comprehensive income:								
Net income	—	—	—	—	—	55,559	—	55,559
Other comprehensive income, net of tax	—	—	—	—	—	—	24,270	24,270
Cash dividends on common stock ($.29 per share)	—	—	—	—	—	(15,770)	—	(15,770)
Share-based compensation	—	—	375	—	1,208	—	—	1,208
Stock issued under employee benefit plans	—	—	4,185	1	161	—	—	162
Stock issued under dividend reinvestment and stock purchase plan	—	—	11,103	2	486	—	—	488
Stock options exercised	—	—	3,000	—	27	—	—	27
Balances, June 30, 2021	125	$ 125	53,972,386	$ 6,747	$ 1,009,182	$ 795,666	$ 60,080	$ 1,871,800

	Three Months Ended June 30, 2020							
	Preferred		Common Stock		Additional		Accumulated Other	
	Shares	Amount	Shares	Amount	Paid in Capital	Retained Earnings	Comprehensive Income	Total
Balances, March 31, 2020	125	$ 125	53,754,137	$ 6,719	$ 1,000,942	$ 716,518	$ 53,656	$ 1,777,960
Comprehensive income:								
Net income	—	—	—	—	—	32,992	—	32,992
Other comprehensive income, net of tax	—	—	—	—	—	—	10,189	10,189
Cash dividends on common stock ($.26 per share)	—	—	—	—	—	(14,071)	—	(14,071)
Share-based compensation	—	—	5,259	1	1,212	—	—	1,213
Stock issued under employee benefit plans	—	—	11,511	1	308	—	—	309
Stock issued under dividend reinvestment and stock purchase plan	—	—	15,897	2	433	—	—	435
Stock options exercised	—	—	9,000	1	75	—	—	76
Restricted shares withheld for taxes	—	—	(304)	—	(8)	—	—	(8)
Balances, June 30. 2020	125	$ 125	53,795,500	$ 6,724	$ 1,002,962	$ 735,439	$ 63,845	$ 1,809,095

See NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS.

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

	Six Months Ended June 30, 2021							
	Preferred		Common Stock		Additional		Accumulated Other	
	Shares	Amount	Shares	Amount	Paid in Capital	Retained Earnings	Comprehensive Income (Loss)	Total
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	—	—	—	—	—	105,028	—	105,028
Other comprehensive loss, net of tax	—	—	—	—	—	—	(14,756)	(14,756)
Cash dividends on common stock ($.55 per share)	—	—	—	—	—	(29,900)	—	(29,900)
Share-based compensation	—	—	4,660	1	2,397	—	—	2,398
Stock issued under employee benefit plans	—	—	8,114	1	305	—	—	306
Stock issued under dividend reinvestment and stock purchase plan	—	—	20,220	3	928	—	—	931
Stock options exercised	—	—	17,300	2	196	—	—	198
Restricted shares withheld for taxes	—	—	(267)	—	(10)	—	—	(10)
Balances, June 30, 2021	125	$ 125	53,972,386	$ 6,747	$ 1,009,182	$ 795,666	$ 60,080	$ 1,871,800

	Six Months Ended June 30, 2020							
	Preferred		Common Stock		Additional		Accumulated Other	
	Shares	Amount	Shares	Amount	Paid in Capital	Retained Earnings	Comprehensive Income	Total
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	—	—	—	—	—	67,255	—	67,255
Other comprehensive income, net of tax	—	—	—	—	—	—	35,971	35,971
Cash dividends on common stock ($.52 per share)	—	—	—	—	—	(28,336)	—	(28,336)
Repurchase of common stock	—	—	(1,634,437)	(204)	(55,708)	—	—	(55,912)
Share-based compensation	—	—	8,591	1	2,432	—	—	2,433
Stock issued under employee benefit plans	—	—	11,511	1	308	—	—	309
Stock issued under dividend reinvestment and stock purchase plan	—	—	31,607	4	859	—	—	863
Stock options exercised	—	—	10,050	1	82	—	—	83
Restricted shares withheld for taxes	—	—	(304)	—	(8)	—	—	(8)
Balances, June 30. 2020	125	$ 125	53,795,500	$ 6,724	$ 1,002,962	$ 735,439	$ 63,845	$ 1,809,095

See NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS.

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

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (Unaudited)

	Six Months Ended June 30,	
	2021	2020
Cash Flow From Operating Activities:		
Net income	$ 105,028	$ 67,255
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	—	41,647
Depreciation and amortization	5,442	5,435
Change in deferred taxes	(1,179)	(18,509)
Share-based compensation	2,398	2,433
Loans originated for sale	(275,277)	(322,288)
Proceeds from sales of loans held for sale	271,360	336,583
Gains on sales of loans held for sale	(10,699)	(6,159)
Gains on sales of securities available for sale	(3,560)	(7,680)
Increase in cash surrender of life insurance	(2,394)	(2,591)
Gains on life insurance benefits	(147)	(95)
Change in interest receivable	(225)	(8,162)
Change in interest payable	(358)	(1,167)
Other adjustments	4,728	27,998
Net cash provided by operating activities	95,117	114,700
Cash Flows from Investing Activities:		
Net change in interest-bearing deposits	(46,558)	(261,758)
Purchases of:		
Securities available for sale	(647,206)	(341,116)
Securities held to maturity	(618,068)	(221,711)
Proceeds from sales of securities available for sale	72,657	167,390
Proceeds from maturities of:		
Securities available for sale	151,419	135,398
Securities held to maturity	122,397	127,380
Net change in loans	46,880	(840,804)
Net cash and cash equivalents paid in acquisition	(2,933)	—
Proceeds from the sale of other real estate owned	530	592
Proceeds from life insurance benefits	824	177
Proceeds from mortgage portfolio loan sale	76,067	—
Other adjustments	(4,484)	(5,190)
Net cash used in investing activities	(848,475)	(1,239,642)
Cash Flows from Financing Activities:		
Net change in :		
Demand and savings deposits	936,290	1,419,771
Certificates of deposit and other time deposits	(94,500)	(293,739)
Borrowings	8,737	467,056
Repayment of borrowings	(94,004)	(332,595)
Cash dividends on common stock	(29,900)	(28,336)
Stock issued under employee benefit plans	306	309
Stock issued under dividend reinvestment and stock purchase plans	931	863
Stock options exercised	198	83
Repurchase of common stock	—	(55,912)
Net cash provided by financing activities	728,058	1,177,500
Net Change in Cash and Cash Equivalents	(25,300)	52,558
Cash and Cash Equivalents, January 1	192,896	177,201
Cash and Cash Equivalents, June 30	$ 167,596	$ 229,759
Additional cash flow information:		
Interest paid	$ 18,757	$ 43,331
Income tax paid (refunded)	16,810	(300)
Loans transferred to other real estate owned	64	761
Fixed assets transferred to other real estate owned	6,282	262
Non-cash investing activities using trade date accounting	104,552	13,115
ROU assets obtained in exchange for new operating lease liabilities	1,432	1,398
In conjunction with the acquisitions, liabilities were assumed as follows:		
Fair value of assets acquired	$ 4,041	$ —
Cash paid in acquisition	(3,225)	—
Liabilities assumed	$ 816	$ —

See NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS.

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

NOTE 1
GENERAL
Financial Statement Preparation

The Consolidated Condensed Balance Sheet of the Corporation as of December 31, 2020, has been derived from the audited consolidated balance sheet of the Corporation as of that date. Certain information and note disclosures normally included in the Corporation’s annual financial statements, prepared in accordance with accounting principles generally accepted in the United States of America, have been condensed or omitted. These consolidated condensed financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Corporation’s Annual Report on Form 10-K for the year ended December 31, 2020 filed with the Securities and Exchange Commission. The results of operations for the three and six months ended June 30, 2021, are not necessarily indicative of the results to be expected for the year. Reclassifications have been made to prior financial statements to conform to the current financial statement presentation. These reclassifications had no effect on net income. Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for credit losses and fair value of financial instruments. The uncertainties related to the coronavirus disease 2019 ("COVID-19") could cause significant changes to these estimates compared to what was known at the time these financial statements were prepared.

Significant Accounting Policies

The significant accounting policies followed by the Corporation and its wholly-owned subsidiaries for interim financial reporting are consistent with the accounting policies followed for annual financial reporting, with the exception of the Corporation's adoption of ASC 326 as described below under the heading "Recent Accounting Changes Adopted In 2021." The Corporation revised certain accounting policies and implemented certain accounting policy elections, related to the adoption of ASC 326 which are described below. All adjustments, which are of a normal recurring nature and are in the opinion of management necessary for a fair statement of the results for the periods reported, have been included in the accompanying Consolidated Condensed Financial Statements.

The Corporation 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 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. In addition, CECL includes certain changes to the accounting for investment securities available for sale depending on whether management intends to sell the securities or believes that it is more likely than not they will be required to sell.

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, on the consolidated balance sheet of $68.0 million. The allowance increased 57 percent from December 31, 2020, or $74.1 million, because it covered expected credit losses over the life of the loan portfolio, which approximates four years, and it included an allowance on all purchased loans that were previously excluded from the allowance for loan losses calculation. CECL also requires the establishment of a reserve for potential losses from unfunded commitments that is recorded in other liabilities, separate from allowance for credit losses, which was approximately $20.5 million. 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 following table details the impact of the adoption of CECL on the Corporation's balance sheet as of January 1, 2021.

	December 31, 2020	Impact of CECL Adoption	January 1, 2021 Post-CECL Adoption
Assets:			
Held to maturity securities	1,227,668	(245)	1,227,423
Loans	9,243,174	4,776	9,247,950
Allowance for credit losses - Loans	(130,648)	(74,055)	(204,703)
Net loans	9,112,526	(69,279)	9,043,247
Tax asset, deferred and receivable	12,340	21,984	34,324
Liabilities:			
Allowance for credit losses on unfunded loan commitments	—	20,500	20,500
Stockholder's Equity:			
Retained Earnings	788,578	(68,040)	720,538
		—	

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. 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.

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. Furthermore, as of June 30, 2021, there were no past due principal and interest payments associated with these securities. 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.

Purchased Credit Deteriorated ("PCD") – the Corporation has purchased loans, some of which have experienced more than insignificant credit deterioration since origination. PCD loans are recorded at the amount paid. An allowance for credit losses is determined using the same methodology as other loans held for investment. The initial allowance for credit losses determined on a collective basis is allocated to individual loans. The sum of the loan's purchase price and allowance for credit losses becomes its initial amortized cost basis. The difference between the initial amortized cost basis and the par value of the loan is the noncredit discount or premium, which is amortized into interest income over the life of the loan. Subsequent changes to the allowance for credit losses are recorded through the provision for credit losses.

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 4. LOANS AND ALLOWANCE of these Notes to Consolidated Condensed 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.

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

Impact of COVID-19

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. The health concerns relating to the COVID-19 outbreak and related governmental actions taken to reduce the spread of the virus have significantly impacted the global economy (including the states and local economies in which the Corporation operates), disrupted supply chains, and created significant volatility and disruption in financial markets. The outbreak resulted in authorities implementing numerous measures to try to contain the virus, such as travel bans and restrictions, quarantines, shelter in place or total lock-down orders and business limitations and shutdowns. As a result of the shelter in place mandates in effect beginning early in the second quarter of 2020, commercial activity throughout our geographic footprint, as well as nationally, have decreased significantly during 2020 and 2021. These containment measures led to increased unemployment and negatively impacted consumer and business spending. Although the vaccination rate in the U.S. continues to increase and most states have reopened, commercial activity has not yet returned to the levels existing prior to the outbreak of the pandemic. Moreover, certain states and localities have recently experienced significant increases in the number of individuals diagnosed with COVID-19 as variant strains of the virus have spread, which may further complicate efforts of the medical community and federal, state and local governments to respond to the pandemic.

The continued impact of COVID-19 on the Corporation will depend on numerous factors and future developments that are highly uncertain and cannot be predicted with confidence. It is unknown how long the COVID-19 pandemic will last, or when restrictions on individuals and businesses will be fully lifted and businesses and their employees will be able to resume normal activities. Additional information may emerge regarding new developments with COVID-19 and additional actions may be taken by federal, state and local governments to contain COVID-19 or treat its impact. Changes in the behavior of customers, businesses and their employees as a result of COVID-19 pandemic are also unknown. As a result of COVID-19 and the actions taken to contain it or reduce its impact, we may continue to experience changes in the demand for our products and services, changes in the value of collateral securing outstanding loans, reductions in the credit quality of borrowers and the inability of borrowers to repay loans in accordance with their terms. Our commercial and consumer customers are experiencing varying degrees of financial distress, which is expected to continue throughout 2021, especially if positive cases increase and economic shutdowns continue or are reinstated. These and similar factors and events may have substantial negative effects on the business, financial condition and results of operations of the Corporation and its customers.

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act") was signed into law, providing an approximately $2 trillion stimulus package that included direct payments to individual taxpayers, economic stimulus to significantly impacted industry sectors, emergency funding for hospitals and providers, small business loans, increased unemployment benefits, and a variety of tax incentives. For small businesses, eligible nonprofits and certain others, the CARES Act established the Paycheck Protection Program ("PPP"), a lending program administered by the Small Business Administration ("SBA") that was intended to incentivize participants to retain their employees by providing them with loans that are fully guaranteed by the U.S. government and subject to forgiveness if program guidelines are met. The CARES Act and the PPP were further amended throughout 2020 in order to provide additional funding and to extend the two-year maturity for PPP loans to five years. On December 27, 2020, the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act was signed into law as part of the Consolidated Appropriations Act, 2021 (the "CAA"), which amended the CARES Act to, among other things, provide additional funding for the PPP and extend the program through March 31, 2021. Under the American Rescue Plan Act of 2021 and the PPP Extension Act of 2021, which were both enacted during March 2021, additional funds were provided for the program and the deadline for applying for PPP loans was extended through May 31, 2021 (with the SBA given until June 30, 2021 to process loan applications). 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 June 30, 2021, the Corporation had $415.8 million of Paycheck Protection Program ("PPP") loans compared to the December 31, 2020 balance of $667.1 million. The Bank anticipates that the majority of its remaining PPP loans will also be forgiven by the SBA in accordance with the terms of the program.

Guidance on Non-TDR Loan Modifications due to COVID-19

On March 22, 2020, a statement was issued by the Bank's banking regulators and titled the "Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus" (the "Interagency Statement") that encourages financial institutions to work prudently with borrowers who are or may be unable to meet their contractual payment obligations due to the effects of COVID-19. Additionally, Section 4013 of the CARES Act further provides that a qualified loan modification is exempt by law from classification as a troubled debt restructure as defined by GAAP, from the period beginning March 1, 2020 until the earlier of December 31, 2020 or the date that is 60 days after the date on which the national emergency concerning the COVID-19 outbreak under the National Emergencies Act (50 U.S.C. 1601 et seq.) terminates. The Interagency Statement was subsequently revised on April 7, 2020 to clarify the interaction of the original guidance with Section 4013 of the CARES Act, as well as setting forth the banking regulators' views on consumer protection considerations. In accordance with such guidance, the Bank has offered short-term modifications made in response to COVID-19 to 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 are insignificant. The CAA, as described above, extended the expiration date for COVID-related loan modifications exempt from troubled debt restructuring classification until the earlier of January 1, 2022, or 60 days after the termination of the national emergency. Details of the Corporation's modifications are included in the "LOAN QUALITY" section of Management's Discussion and Analysis of Financial Condition and Results of Operations included in this Form 10-Q.

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

Recent Accounting Changes Adopted In 2021

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

FASB Accounting Standards Updates No. 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*
Summary - The FASB issued Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This new guidance replaces the previous "incurred loss" model for measuring credit losses with an "expected life of loan loss" model, referred to as the CECL model.

Under the CECL model, certain financial assets carried at amortized cost, such as loans held for investment and held-to-maturity debt securities, are required to be presented at the net amount expected to be collected. The measurement of expected credit losses is based on information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. This measurement takes place at the time the financial asset is first added to the balance sheet and periodically thereafter. This differs significantly from the “incurred loss” model, which delayed recognition until it is probable a loss had been incurred.

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

The ASU was effective for SEC filers for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Pursuant to the CARES Act and the related joint statement of federal banking regulators (which also became effective as of March 27, 2020), and consistent with guidance from the SEC and FASB, the Corporation elected to delay implementation of ASU No. 2016-13, which was set to expire on December 31, 2020. However, the CAA (as discussed above) extended the temporary relief from CECL compliance to the earlier of the first day of the fiscal year that begins after the date on which the national emergency concerning COVID-19 terminates, or January 1, 2022. The Corporation elected to delay implementation of CECL following the approval of the CARES Act and, with the enactment of the CAA, the Corporation elected to adopt CECL on January 1, 2021. This allows the Corporation to utilize the CECL standard for the entire year of 2021, while its 2020 financial statements were prepared under the incurred loss model.

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, on the consolidated balance sheet of $68.0 million. The allowance increased 57 percent from December 31, 2020, or $74.1 million, because it covered expected credit losses over the life of the loan portfolio, which approximates four years, and it included an allowance on all purchased loans that were previously excluded from the allowance for loan losses calculation. CECL also requires the establishment of a reserve for potential losses from unfunded commitments that is recorded in other liabilities, separate from allowance for credit losses, which was approximately $20.5 million. 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.

FASB Accounting Standards Updates No. 2019-11 - *Codification Improvements to (Topic 326): Financial Instruments - Credit Losses*
Summary **-** The FASB issued ASU No. 2019-11, *Codification Improvements to Topic 326, Financial Instruments - Credit Losses* in order to address issues raised by stakeholders during the implementation of ASU No. 2016-13*, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses of Financial Instruments.*

Among other narrow-scope improvements, the new ASU clarifies guidance around how to report expected recoveries. “Expected recoveries” describes a situation in which an organization recognizes a full or partial write-off of the amortized cost basis of a financial asset, but then later determines that the amount written off, or a portion of that amount, will in fact be recovered. While applying the credit losses standard, stakeholders questioned whether expected recoveries were permitted on assets that had already shown credit deterioration at the time of purchase (also known as PCD assets). In response to this question, the ASU permits organizations to record expected recoveries on PCD assets. In addition to other narrow technical improvements, the ASU also reinforces existing guidance that prohibits organizations from recording negative allowances for available-for-sale debt securities.

The ASU includes effective dates and transition requirements that vary depending on whether or not an entity has already adopted ASU No. 2016-13. As discussed above, pursuant to the CARES Act, the Corporation elected to defer the adoption of CECL. Additionally, the 2021 Consolidated Appropriations Act ("CAA"), signed into law on December 27, 2020, amended the CARES Act by extending the temporary relief from CECL compliance to the earlier of the first day of the fiscal year that begins after the date on which the national emergency concerning COVID-19 terminates, or January 1, 2022. The Corporation elected to delay implementation of CECL following the approval of the CARES Act and, with the enactment of the CAA, the Corporation elected to adopt CECL on January 1, 2021. The adoption of this standard did not have a significant effect on the Corporation’s consolidated financial statements or disclosures.

FASB Accounting Standards Update No. 2019-12 - *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*
Summary - The FASB issued ASU No. 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes, which is expected to reduce cost and complexity related to the accounting for income taxes.

The ASU removes specific exceptions to the general principles in Topic 740 in Generally Accepted Accounting Principles (GAAP). It eliminates the need for an organization to analyze whether the following apply in a given period:
- Exception to the incremental approach for intraperiod tax allocation;
- Exceptions to accounting for basis differences when there are ownership changes in foreign investments; and
- Exception in interim period income tax accounting for year-to-date losses that exceed anticipated losses.

The ASU also improves financial statement preparers' application of income tax-related guidance and simplifies GAAP for:
- Franchise taxes that are partially based on income;
- Transactions with a government that result in a step up in the tax basis of goodwill
- Separate financial statements of legal entities that are not subject to tax; and
- Enacted changes in tax laws in interim periods.

The ASU is part of the FASB's simplification initiative to make narrow-scope simplifications and improvements to accounting standards through a series of short-term projects. For public business entities, the ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. Early adoption of the ASU was permitted. The Corporation adopted this standard on January 1, 2021 and adoption of this standard did not have a significant effect on the Corporation's consolidated financial statements or disclosures.

New Accounting Pronouncements Not Yet Adopted

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

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

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

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

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

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

NOTE 2
ACQUISITION

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

	Fair Value
Cash and cash equivalents	$ 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 of the Hoosier acquisition is not included in these disclosures as it is deemed immaterial.

NOTE 3

INVESTMENT SECURITIES

The following table summarizes the amortized cost, gross unrealized gains and losses and approximate fair value of investment securities available for sale as of June 30, 2021 and December 31, 2020.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale at June 30, 2021				
U.S. Treasury	$ 1,000	$ —	$ —	$ 1,000
U.S. Government-sponsored agency securities	11,502	39	—	11,541
State and municipal	1,365,211	87,152	518	1,451,845
U.S. Government-sponsored mortgage-backed securities	952,720	12,937	7,371	958,286
Corporate obligations	4,031	197	—	4,228
Total available for sale	$ 2,334,464	$ 100,325	$ 7,889	$ 2,426,900

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale at December 31, 2020				
U.S. Government-sponsored agency securities	$ 2,380	$ 50	$ —	$ 2,430
State and municipal	1,168,711	89,420	246	1,257,885
U.S. Government-sponsored mortgage-backed securities	632,267	22,505	103	654,669
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 as of June 30, 2021 and December 31, 2020.

	Amortized Cost	Allowance for Credit Losses	Net Carrying Amount	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held to maturity at June 30, 2021						
U.S. Government-sponsored agency securities	$ 60,677	$ —	$ 60,677	$ 1	$ 715	$ 59,963
State and municipal	863,426	245	863,181	31,276	977	893,725
U.S. Government-sponsored mortgage-backed securities	796,056	—	796,056	12,164	2,561	805,659
Foreign investment	1,500	—	1,500	—	—	1,500
Total held to maturity	$ 1,721,659	$ 245	$ 1,721,414	$ 43,441	$ 4,253	$ 1,760,847

	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	$ 31,087	$ —	$ 31,087	$ 10	$ 113	$ 30,984
State and municipal	619,927	—	619,927	34,978	32	654,873
U.S. Government-sponsored mortgage-backed securities	575,154	—	575,154	17,889	107	592,936
Foreign investment	1,500	—	1,500	—	—	1,500
Total held to maturity	$ 1,227,668	$ —	$ 1,227,668	$ 52,877	$ 252	$ 1,280,293

Accrued interest on investment securities available for sale and held to maturity of $22.9 million are included in the Interest Receivable line on the Corporation's Consolidated Condensed Balance Sheets. The total amount of accrued interest is excluded from the amortized cost of available for sale and held to maturity securities presented above.

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

The allowance for credit losses on investment securities held to maturity is a contra asset-valuation account that is deducted from the amortized cost basis of investment securities held to maturity to present the net amount expected to be collected. Investment securities held to maturity are charged off against the allowance when deemed uncollectible. Adjustments to the allowance are reported in the income statement as a component of the provision for credit loss. The Corporation measures expected credit losses on investment securities held to maturity on a collective basis by major security type with each type sharing similar risk characteristics, and considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts. The Corporation has made the accounting policy election to exclude accrued interest receivable on investment securities held to maturity from the estimate of credit losses. With regard to U.S. Government-sponsored agency and mortgage-backed securities, all these securities are issued by a U.S. government-sponsored entity and have an implicit or explicit government guarantee; therefore, no allowance for credit losses has been recorded for these securities. With regard to securities issued by states and municipalities and other investment securities held to maturity, management considers (1) issuer bond ratings, (2) historical loss rates for given bond ratings, (3) the financial condition of the issuer, and (4) whether issuers continue to make timely principal and interest payments under the contractual terms of the securities. Historical loss rates associated with securities having similar grades as those in the Corporation's portfolio have been insignificant. Furthermore, as of June 30, 2021, there were no past due principal and interest payments associated with these securities. 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.

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 June 30, 2021, aggregated by credit quality indicator.

	Held to Maturity		
	State and municipal	Other	Total
Credit Rating:			
Aaa	$ 54,753	$ 60,677	$ 115,430
Aa1	131,246	—	131,246
Aa2	136,008	—	136,008
Aa3	96,915	—	96,915
A1	66,549	—	66,549
A2	18,962	—	18,962
A3	1,065	—	1,065
Baa2	527	—	527
Non-rated	357,401	797,556	1,154,957
Total	$ 863,426	$ 858,233	$ 1,721,659

The following table details activity in the allowance for credit losses on investment securities held to maturity during the six months ended June 30, 2021.

	State and municipal
Allowance for Credit Losses:	
Balance, December 31, 2020	$ —
Impact of adopting ASC 326	245
Provision for credit loss	—
Securities charged off	—
Recoveries on securities	—
Balance, June 30, 2021	$ 245

The following tables summarize, as of June 30, 2021 and December 31, 2020, 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 June 30, 2021						
State and municipal	$ 63,102	$ 518	$ —	$ —	$ 63,102	$ 518
U.S. Government-sponsored mortgage-backed securities	460,616	7,371	—	—	460,616	7,371
Total investment securities available for sale	$ 523,718	$ 7,889	$ —	$ —	$ 523,718	$ 7,889

	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, 2020						
State and municipal	$ 5,368	$ 246	$ —	$ —	$ 5,368	$ 246
U.S. Government-sponsored mortgage-backed securities	9,651	103	—	—	9,651	103
Total investment securities available for sale	$ 15,019	$ 349	$ —	$ —	$ 15,019	$ 349

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.

	June 30, 2021		December 31, 2020	
Investments available for sale reported at less than historical cost:				
Historical cost	$	531,607	$	15,368
Fair value		523,718		15,019
Gross unrealized losses	$	7,889	$	349
Percent of the Corporation's investments available for sale		21.6 %		0.8 %

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.

U.S. Government-Sponsored Mortgage-Backed Securities
The unrealized losses on the Corporation's investment in mortgage-backed securities were a result of interest rate changes. The Corporation expects to recover the amortized cost basis over the term of the securities. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Corporation does not intend to sell the investments and it is not more likely than not that the Corporation will be required to sell the investments before recovery of their amortized cost basis, which may be maturity. At June 30, 2021, the mortgage-backed securities portfolio contains unrealized losses of $7.4 million on forty-five securities in the available for sale portfolio. All these securities are issued by a government-sponsored entity.

State and Municipal Securities, U.S. Government-Sponsored Agency Securities and Corporate Obligation Securities
The unrealized losses on the Corporation's investments in securities of state and political subdivisions, U.S. Government-Sponsored Agency securities and corporate obligations were caused by interest rate increases. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost basis of the investments. 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. At June 30, 2021, the state and municipal securities portfolio contains unrealized losses of $518,000 on fifty-one securities in the available for sale portfolio.
The amortized cost and fair value of investment securities available for sale and held to maturity at June 30, 2021 and December 31, 2020, 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 June 30, 2021				
Due in one year or less	$ 1,060	$ 1,067	$ 8,405	$ 8,461
Due after one through five years	8,850	9,176	23,079	24,351
Due after five through ten years	90,059	95,333	147,663	152,770
Due after ten years	1,281,775	1,363,038	746,456	769,606
	1,381,744	1,468,614	925,603	955,188
U.S. Government-sponsored mortgage-backed securities	952,720	958,286	796,056	805,659
Total investment securities	$ 2,334,464	$ 2,426,900	$ 1,721,659	$ 1,760,847

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Maturity Distribution at December 31, 2020				
Due in one year or less	$ 1,349	$ 1,353	$ 9,712	$ 9,755
Due after one through five years	5,545	5,764	22,241	23,190
Due after five through ten years	70,777	75,223	115,408	121,333
Due after ten years	1,097,451	1,182,110	505,153	533,079
	1,175,122	1,264,450	652,514	687,357
U.S. Government-sponsored mortgage-backed securities	632,267	654,669	575,154	592,936
Total investment securities	$ 1,807,389	$ 1,919,119	$ 1,227,668	$ 1,280,293

Securities with a carrying value of approximately $877.1 million and $890.0 million were pledged at June 30, 2021 and December 31, 2020, 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 $139.3 million at June 30, 2021 and $167.3 million at December 31, 2020.

Gross gains on the sales and redemptions of investment securities available for sale for the three and six months ended June 30, 2021 and 2020 are shown below.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Sales and redemptions of investment securities available for sale:				
Gross gains	$ 1,822	$ 3,068	$ 3,898	$ 7,680
Gross losses	61	—	338	—
Net gains on sales and redemptions of investment securities available for sale	$ 1,761	$ 3,068	$ 3,560	$ 7,680

NOTE 4

LOANS AND ALLOWANCE

Loan Portfolio and Credit Quality

The Corporation's primary lending focus is small business and middle market commercial, commercial real estate 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 June 30, 2021 and December 31, 2020, were $18.6 million and $4.0 million, respectively.

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

	June 30, 2021	December 31, 2020
Commercial and industrial loans	$ 2,671,076	$ 2,776,699
Agricultural land, production and other loans to farmers	235,020	281,884
Real estate loans:		
Construction	491,200	484,723
Commercial real estate, non-owner occupied	2,263,497	2,220,949
Commercial real estate, owner occupied	953,501	958,501
Residential	1,127,442	1,234,741
Home equity	489,997	508,259
Individuals' loans for household and other personal expenditures	130,819	129,479
Public finance and other commercial loans	758,698	647,939
Loans	$ 9,121,250	$ 9,243,174

As of June 30, 2021, the Corporation had $415.8 million of Paycheck Protection Program ("PPP") loans compared to the December 31, 2020 balance of $667.1 million. PPP loans are included in the commercial and industrial loan class. Additional details of the PPP are included in The CARES Act and the Paycheck Protection Program sections of the "COVID-19 UPDATE" in the Management's Discussion and Analysis of Financial Condition and Results of Operations included in this Form 10-Q.

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

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.

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(table dollar amounts in thousands, except share data)

(Unaudited)

The following tables summarize the risk grading of the Corporation’s loan portfolio by loan class and by year of origination for the years indicated. Consumer loans are not risk graded. For the purposes of this disclosure, the consumer loans are classified in the following manner: loans that are less than 30 days past due are Pass, loans 30-89 days past due are Special Mention and loans greater than 89 days past due are Substandard. The entire balance of a loan is considered delinquent if the minimum payment contractually required to be made is not received by the specified due date. Loans that evidenced deterioration of credit quality since origination and it was probable, at acquisition, that all contractually required payments would not be collected are included in the applicable categories below. Commercial and industrial loan balances as of June 30, 2021 with an origination year of 2021 and 2020 include PPP loans of $302.0 million and $113.8 million, respectively.

	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	$ 705,017	$ 680,616	$ 220,134	$ 88,941	$ 35,001	$ 61,402	$ 764,492	$ —	$ 2,555,603
Special Mention	8,826	31,372	963	1,214	2,315	2,299	17,494	—	64,483
Substandard	2,496	3,140	6,148	647	345	861	37,353	—	50,990
Total Commercial and industrial loans	$ 716,339	$ 715,128	$ 227,245	$ 90,802	$ 37,661	$ 64,562	$ 819,339	$ —	$ 2,671,076
Agricultural land, production and other loans to farmers									
Pass	29,307	53,177	24,414	10,441	7,291	43,426	50,668	—	218,724
Special Mention	132	1,561	186	480	—	392	1,572	—	4,323
Substandard	719	1,893	137	1,732	402	3,479	3,611	—	11,973
Total Agricultural land, production and other loans to farmers	$ 30,158	$ 56,631	$ 24,737	$ 12,653	$ 7,693	$ 47,297	$ 55,851	$ —	$ 235,020
Real estate loans:									
Construction									
Pass	87,073	190,362	140,397	49,429	3,031	2,788	17,622		490,702
Special Mention	—	367	—	—	—	—	40	—	407
Substandard	—	28	—	62	—	1	—	—	91
Total Construction	$ 87,073	$ 190,757	$ 140,397	$ 49,491	$ 3,031	$ 2,789	$ 17,662	$ —	$ 491,200
Commercial real estate, non-owner occupied									
Pass	320,351	829,716	276,030	181,489	134,569	177,499	28,768	—	1,948,422
Special Mention	53,576	161,095	—	10,333	—	10,098	1,250	—	236,352
Substandard	5,997	39,117	23,676	2,130	7,503	300	—	—	78,723
Total Commercial real estate, non-owner occupied	$ 379,924	$ 1,029,928	$ 299,706	$ 193,952	$ 142,072	$ 187,897	$ 30,018	$ —	$ 2,263,497
Commercial real estate, owner occupied									
Pass	154,390	444,147	110,496	48,809	53,093	75,210	35,589	—	921,734
Special Mention	562	5,813	2,570	1,626	2,208	1,748	157	—	14,684
Substandard	954	11,567	—	53	2,734	1,775	—	—	17,083
Total Commercial real estate, owner occupied	$ 155,906	$ 461,527	$ 113,066	$ 50,488	$ 58,035	$ 78,733	$ 35,746	$ —	$ 953,501
Residential									
Pass	162,624	411,016	124,377	86,116	67,041	258,010	3,919	34	1,113,137
Special Mention	282	1,322	219	657	60	1,152	—	—	3,692
Substandard	1,434	3,248	107	1,392	203	4,140	89	—	10,613
Total Residential	$ 164,340	$ 415,586	$ 124,703	$ 88,165	$ 67,304	$ 263,302	$ 4,008	$ 34	$ 1,127,442
Home equity									
Pass	24,144	20,741	2,313	2,530	1,605	4,689	430,070	171	486,263
Special Mention	—	—	—	9	—	59	1,888	—	1,956
Substandard	488	—	—	10	98	178	1,004	—	1,778
Total Home Equity	$ 24,632	$ 20,741	$ 2,313	$ 2,549	$ 1,703	$ 4,926	$ 432,962	$ 171	$ 489,997
Individuals' loans for household and other personal expenditures									
Pass	31,102	34,212	20,548	15,707	3,433	6,358	17,855	—	129,215
Special Mention	5	223	188	40	16	25	1,107	—	1,604
Substandard	—	—	—	—	—	—	—	—	—
Total Individuals' loans for household and other personal expenditures	$ 31,107	$ 34,435	$ 20,736	$ 15,747	$ 3,449	$ 6,383	$ 18,962	$ —	$ 130,819
Public finance and other commercial loans									
Pass	172,554	189,090	101,518	39,675	108,677	133,286	13,898	—	758,698
Total Public finance and other commercial loans	$ 172,554	$ 189,090	$ 101,518	$ 39,675	$ 108,677	$ 133,286	$ 13,898	$ —	$ 758,698
Loans	$ 1,762,033	$ 3,113,823	$ 1,054,421	$ 543,522	$ 429,625	$ 789,175	$ 1,428,446	$ 205	$ 9,121,250

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	December 31, 2020							
	Commercial Pass	Commercial Special Mention	Commercial Substandard	Commercial Doubtful	Commercial Loss	Consumer Performing	Consumer Non-Performing	Total
Commercial and industrial loans	$ 2,562,077	$ 117,503	$ 97,119	$ —	$ —	$ —	$ —	$ 2,776,699
Agricultural land, production and other loans to farmers	243,991	26,835	9,885	—	—	1,173	—	281,884
Real estate Loans:								
Construction	446,846	10,445	5,549	—	—	21,763	120	484,723
Commercial real estate, non-owner occupied	1,979,827	160,304	80,818	—	—	—	—	2,220,949
Commercial real estate, owner occupied	907,566	17,641	33,294			—	—	958,501
Residential	199,338	2,261	7,058	—	—	1,020,687	5,397	1,234,741
Home equity	12,714	—	989	—	—	492,999	1,557	508,259
Individuals' loans for household and other personal expenditures	—	—	—	—	—	129,440	39	129,479
Public finance and other commercial loans	647,939	—	—	—	—	—	—	647,939
Loans	$ 7,000,298	$ 334,989	$ 234,712	$ —	$ —	$ 1,666,062	$ 7,113	$ 9,243,174

Total past due loans equaled $68.4 million as of June 30, 2021, a $4.4 million decrease from the total of $72.8 million for December 31, 2020. At June 30, 2021, 30-59 Days Past Due loans totaled $13.0 million, a decrease of $6.6 million from December 31, 2020. The primary decreases were in commercial real estate, both non-owner occupied and owner occupied segments, and in home equity loans. The overall balances in the 60-89 and 90 plus Days Past Due categories remained relatively level with the December 31, 2020 balances. The tables below show a past due aging of the Corporation's loan portfolio, by loan class, for the years indicated:

	June 30, 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	$ 2,658,952	$ 6,336	$ 4,590	$ 1,198	$ 2,671,076	$ —
Agricultural land, production and other loans to farmers	234,432	—	—	588	235,020	—
Real estate loans:						
Construction	491,200	—	—	—	491,200	—
Commercial real estate, non-owner occupied	2,221,577	39	5,364	36,517	2,263,497	—
Commercial real estate, owner occupied	949,949	2,127	—	1,425	953,501	—
Residential	1,121,721	2,276	347	3,098	1,127,442	183
Home equity	487,075	832	1,125	965	489,997	—
Individuals' loans for household and other personal expenditures	129,214	1,397	208	—	130,819	—
Public finance and other commercial loans	758,698	—	—	—	758,698	—
Loans	$ 9,052,818	$ 13,007	$ 11,634	$ 43,791	$ 9,121,250	$ 183

	December 31, 2020					
	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	$ 2,761,473	$ 5,866	$ 6,571	$ 2,789	$ 2,776,699	$ 594
Agricultural land, production and other loans to farmers	280,615	146	226	897	281,884	—
Real estate loans:						
Construction	484,706	—	17	—	484,723	—
Commercial real estate, non-owner occupied	2,184,681	2,525	2,109	31,634	2,220,949	—
Commercial real estate, owner occupied	951,561	4,854	180	1,906	958,501	—
Residential	1,226,779	3,269	1,429	3,264	1,234,741	133
Home equity	503,596	2,644	559	1,460	508,259	19
Individuals' loans for household and other personal expenditures	129,049	334	96	—	129,479	—
Public finance and other commercial loans	647,939	—	—	—	647,939	—
Loans	$ 9,170,399	$ 19,638	$ 11,187	$ 41,950	$ 9,243,174	$ 746

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. All unpaid accrued interest is reversed against earnings when considered uncollectible and at the time accrual is discontinued. 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:

	June 30, 2021		December 31, 2020
	Non-Accrual Loans	Non-Accrual Loans with no Allowance for Credit Losses	Non-Accrual Loans
Commercial and industrial loans	$ 1,467	$ 781	$ 2,329
Agricultural land, production and other loans to farmers	682	562	1,012
Real estate loans:			
Construction	1	—	123
Commercial real estate, non-owner occupied	45,437	28,179	46,316
Commercial real estate, owner occupied	2,133	926	3,040
Residential	5,552	816	6,517
Home equity	2,248	—	2,095
Individuals' loans for household and other personal expenditures	36	—	39
Loans	$ 57,556	$ 31,264	$ 61,471

There was no interest income recognized on non-accrual loans for the three and six months ended June 30, 2021 and 2020, 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 table presents the amortized cost basis of collateral dependent loans, which are individually evaluated to determine expected credit losses:

	June 30, 2021				
	Commercial Real Estate	Residential Real Estate	Other	Total	Allowance on Collateral Dependent Loans
Commercial and industrial loans	$ —	$ —	$ 2,106	$ 2,106	$ 727
Agricultural land, production and other loans to farmers	562	—	300	862	117
Real estate loans:					
Commercial real estate, non-owner occupied	47,834	—	—	47,834	4,943
Commercial real estate, owner occupied	2,942	—	—	2,942	238
Residential	—	2,981	—	2,981	334
Home equity	—	408	—	408	67
Individuals' loans for household and other personal expenditures	—	—	1	1	—
Loans	$ 51,338	$ 3,389	$ 2,407	$ 57,134	$ 6,426

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As detailed in NOTE 1. GENERAL of these Notes to Consolidated Condensed Financial Statements, the Bank's banking regulators issued guidance in March 2020 encouraging financial institutions to work prudently with borrowers who are or may be unable to meet their contractual payment obligations due to the effects of COVID-19. Additionally, Section 4013 of the CARES Act had further provided that a qualified loan modification is exempt by law from classification as a troubled debt restructure as defined by GAAP, from the period beginning March 1, 2020 until the earlier of December 31, 2020 or the date that is 60 days after the date on which the national emergency concerning the COVID-19 outbreak under the National Emergencies Act (50 U.S.C. 1601 et seq.) terminates. In accordance with that guidance, the Bank has offered short-term modifications made in response to COVID-19 to 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 are insignificant. The Consolidated Appropriations Act, 2021 extended the expiration date for COVID-related loan modifications exempt from troubled debt restructuring classification until the earlier of January 1, 2022, or 60 days after the termination of the national emergency. Details of the Corporation's modifications are included in the "LOAN QUALITY" section of Management's Discussion and Analysis of Financial Condition and Results of Operations included in this Form 10-Q.

In certain loan restructuring situations, the Corporation may grant a concession to a debtor experiencing financial difficulty, resulting in a troubled debt restructuring. A concession is deemed to be granted when, as a result of the restructuring, the Corporation does not expect to collect all original amounts due, including interest accrued at the original contract rate. If the payment of principal at original maturity is primarily dependent on the value of collateral, the current value of the collateral is considered in determining whether the principal will be repaid.

The following tables summarize troubled debt restructures in the Corporation's loan portfolio that occurred during the three months and six months ended June 30, 2021 and 2020, respectively.

	Three Months Ended June 30, 2021				
	Pre- Modification Recorded Balance	Term Modification	Combination	Post - Modification Recorded Balance	Number of Loans
Real estate loans:					
Commercial real estate, owner occupied	$ 21	$ —	$ 21	$ 21	1
Residential	66	66	—	66	2
Total	$ 87	$ 66	$ 21	$ 87	3

	Three Months Ended June 30, 2020					
	Pre- Modification Recorded Balance	Term Modification	Rate Modification	Combination	Post - Modification Recorded Balance	Number of Loans
Commercial and industrial loans	$ 654	$ 654	$ —	$ —	$ 654	3
Agricultural land, production and other loans to farmers	458	458	—	—	458	1
Real estate loans:						
Commercial real estate, owner occupied	107	107	—	—	107	1
Residential	300	—	112	225	337	6
Total	$ 1,519	$ 1,219	$ 112	$ 225	$ 1,556	11

	Six Months Ended June 30, 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:						
Commercial real estate, owner occupied	21	—	—	21	21	1
Residential	691	449	126	118	693	9
Total	$ 1,060	$ 797	$ 126	$ 139	$ 1,062	12

	Six Months Ended June 30, 2020					
	Pre- Modification Recorded Balance	Term Modification	Rate Modification	Combination	Post - Modification Recorded Balance	Number of Loans
Commercial and industrial loans	$ 654	$ 654	$ —	$ —	$ 654	3
Agricultural land, production and other loans to farmers	458	458	—	—	458	1
Real estate loans:						
Commercial real estate, owner occupied	107	107	—	—	107	1
Residential	300	—	112	225	337	6
Total	$ 1,519	$ 1,219	$ 112	$ 225	$ 1,556	11

Loans secured by 1- 4 family residential real estate made up 76 percent of the post-modification balances of the troubled debt restructured loans that occurred during the three months ending June 30, 2021 and 65 percent for the six months ending June 30, 2021.

The following tables summarize troubled debt restructures that occurred during the twelve months ended June 30, 2021 and 2020, that subsequently defaulted during the period indicated and remained in default at period end. For purposes of this schedule, a loan is considered in default if it is 30-days or more past due.

	Three Months Ended June 30, 2021		Six Months Ended June 30, 2021	
	Number of Loans	Recorded Balance	Number of Loans	Recorded Balance
Commercial and industrial loans	2	$ 163	2	$ 163
Real estate loans:				
Residential	2	195	2	195
Total	4	$ 358	4	$ 358

	Three Months Ended June 30, 2020		Six Months Ended June 30, 2020	
	Number of Loans	Recorded Balance	Number of Loans	Recorded Balance
Commercial and industrial loans	1	$ 268	1	$ 268
Total	1	$ 268	1	$ 268

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

For all consumer loan modifications, an evaluation to identify if a troubled debt restructure has occurred is performed prior to making the modification. Any subsequent deterioration is addressed through the charge-off process or through a specific reserve allocation included in the allowance for credit loss. Consumer troubled debt restructures that are not individually evaluated for a specific reserve are included in the calculation of the allowance for credit losses through the loan segment loss analysis. Consumer loans secured by residential real estate properties for which formal foreclosure proceedings are in process totaled $3.2 million and $492,000 at June 30, 2021 and June 30, 2020, respectively.

Allowance for Credit Losses on Loans

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

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

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

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

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

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

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

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

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

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

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

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

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

The following tables summarize changes in the allowance for credit losses by loan segment for the three and six months ended June 30, 2021:

	Three Months Ended June 30, 2021				
	Commercial	Commercial Real Estate	Construction	Consumer & Residential	Total
Allowance for credit losses					
Balances, March 31, 2021	$ 65,722	$ 70,861	$ 20,182	$ 44,317	$ 201,082
Provision for credit losses	(1,898)	2,842	(3,106)	2,162	—
Recoveries on loans	152	33	1	226	412
Loans charged off	(295)	(1,035)	—	(389)	(1,719)
Balances, June 30, 2021	$ 63,681	$ 72,701	$ 17,077	$ 46,316	$ 199,775

	Six Months Ended June 30, 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	(2,830)	1,141	(2,011)	—	—	3,700	—
Recoveries on loans	340	197	1	—	—	568	1,106
Loans charged off	(968)	(4,348)	(2)	—	—	(716)	(6,034)
Balances, June 30, 2021	$ 63,681	$ 72,701	$ 17,077	$ —	$ —	$ 46,316	$ 199,775

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 tables summarize changes in the allowance for loan losses by loan segment for the three and six months ended June 30, 2020:

	Three Months Ended June 30, 2020				
	Commercial	Commercial Real Estate	Consumer	Residential	Total
Allowance for loan losses:					
Balances, March 31, 2020	$ 38,431	$ 37,907	$ 5,752	$ 17,364	$ 99,454
Provision for losses	6,240	8,945	2,783	3,927	21,895
Recoveries on loans	106	107	56	48	317
Loans charged off	(99)	(41)	(146)	(261)	(547)
Balances, June 30, 2020	$ 44,678	$ 46,918	$ 8,445	$ 21,078	$ 121,119

	Six Months Ended June 30, 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	11,941	18,139	4,707	6,860	41,647
Recoveries on loans	549	225	98	118	990
Loans charged off	(714)	(224)	(395)	(469)	(1,802)
Balances, June 30, 2020	$ 44,678	$ 46,918	$ 8,445	$ 21,078	$ 121,119

The table below shows the Corporation’s allowance for loan losses under the incurred loss model and loan portfolio by loan segment as of December 31, 2020.

	December 31, 2020				
	Commercial	Commercial Real Estate	Consumer	Residential	Total
Allowance Balances:					
Individually evaluated for impairment	$ 223	$ 12,246	$ —	$ 432	$ 12,901
Collectively evaluated for impairment	46,892	38,824	9,648	22,383	117,747
Total Allowance for Loan Losses	$ 47,115	$ 51,070	$ 9,648	$ 22,815	$ 130,648
Loan Balances:					
Individually evaluated for impairment	$ 1,258	$ 51,605	$ 2	$ 3,291	$ 56,156
Collectively evaluated for impairment	3,505,863	3,805,808	129,477	1,739,709	9,180,857
Loans acquired with deteriorated credit quality	577	5,584	—	—	6,161
Loans	$ 3,507,698	$ 3,862,997	$ 129,479	$ 1,743,000	$ 9,243,174

The following tables show the composition of the Corporation’s impaired loans, related allowance under the incurred loss model and interest income recognized while impaired by loan class as of the periods indicated:

	December 31, 2020		
	Unpaid Principal Balance	Recorded Investment	Related Allowance
Impaired loans with no related allowance:			
Commercial and industrial loans	$ 1,059	$ 991	$ —
Real estate Loans:			
Commercial real estate, non-owner occupied	4,958	4,694	—
Commercial real estate, owner occupied	2,125	1,310	—
Residential	957	816	—
Individuals' loans for household and other personal expenditures	2	2	—
Total	$ 9,101	$ 7,813	$ —
Impaired loans with related allowance:			
Commercial and industrial loans	$ 268	$ 268	$ 223
Agricultural land, production and other loans to farmers	640	562	3
Real estate Loans:			
Commercial real estate, non-owner occupied	44,016	43,715	11,686
Commercial real estate, owner occupied	2,061	1,323	557
Residential	2,041	2,014	352
Home equity	487	461	80
Total	$ 49,513	$ 48,343	$ 12,901
Total Impaired Loans	$ 58,614	$ 56,156	$ 12,901

	Three Months Ended June 30, 2020		Six Months Ended June 30, 2020	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Impaired loans with no related allowance:				
Commercial and industrial loans	$ 5,008	$ —	$ 5,008	$ —
Real estate Loans:				
Commercial and farmland	7,637	37	7,910	75
Residential	59	1	59	2
Individuals' loans for household and other personal expenditures	3	—	3	—
Total	$ 12,707	$ 38	$ 12,980	$ 77
Impaired loans with related allowance:				
Commercial and industrial loans	$ 10,304	$ —	$ 10,304	$ —
Real estate Loans:				
Commercial and farmland	18,910	—	19,156	—
Residential	3,020	19	3,032	38
Home equity	387	3	390	6
Total	$ 32,621	$ 22	$ 32,882	$ 44
Total Impaired Loans	$ 45,328	$ 60	$ 45,862	$ 121

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:

	June 30, 2021	December 31, 2020
Amounts of commitments:		
Loan commitments to extend credit	$ 3,884,912	$ 3,443,514
Standby letters of credit	$ 32,505	$ 29,555

The adoption of the CECL methodology for measuring credit losses, as discussed more fully in the Allowance for Credit Loss on Loans section of this Note, and in NOTE 1. GENERAL of these Notes to Consolidated Condensed Financial Statements, increased the opening balance of our accrual for off-balance sheet commitments at adoption by $20.5 million. This reserve level remains appropriate and is reported in Other Liabilities as of June 30, 2021 in the CONSOLIDATED CONDENSED BALANCE SHEETS.

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

	Three Months Ended June 30, 2021
Balances, March 31, 2021	$ 20,500
Provision for credit losses	—
Balances, June 30, 2021	$ 20,500

NOTE 5

GOODWILL

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

	2021	2020
Balance, January 1	$ 543,918	$ 543,918
Goodwill acquired	1,467	—
Balance, June 30	$ 545,385	$ 543,918

NOTE 6

OTHER INTANGIBLES

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

	June 30, 2021	December 31, 2020
Gross carrying amount	$ 102,396	$ 102,396
Other intangibles acquired	2,247	—
Accumulated amortization	(76,242)	(73,421)
Total core deposit and other intangibles	$ 28,401	$ 28,975

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 ten years. Intangible asset amortization expense for the three and six months ended June 30, 2021 was $1.5 million and $2.8 million, respectively, compared to $1.5 million and $3.0 million for the three and six months ended June 30, 2020, respectively. Estimated future amortization expense is summarized as follows:

	Amortization Expense
2021	$ 2,927
2022	5,402
2023	5,145
2024	4,510
2025	3,754
After 2025	6,663
	$ 28,401

NOTE 7

DERIVATIVE FINANCIAL INSTRUMENTS

Risk Management Objective of Using Derivatives

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

Cash Flow Hedges of Interest Rate Risk

The Corporation's objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish these objectives, the Corporation primarily uses interest rate swaps and interest rate caps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the payment of fixed amounts to a counterparty in exchange for the Corporation receiving variable payments over the life of the agreements without exchange of the underlying notional amount. Interest rate caps designated as cash flow hedges involve the receipt of variable amounts from a counterparty if interest rates rise above the strike rate on the contract in exchange for an up-front premium. As of June 30, 2021 and December 31, 2020, the Corporation had four interest rate swaps with a notional amount of $60.0 million that were designated as cash flow hedges.

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in accumulated other comprehensive income and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During 2021, $26.0 million of the interest rate swaps were used to hedge the variable cash outflows (LIBOR-based) associated with existing trust preferred securities when the outflows converted from a fixed rate to variable rate in September 2012. In addition, $10.0 million of interest rate swaps were used to hedge the variable cash outflows (LIBOR-based) associated with one Federal Home Loan Bank advances. Finally, the remaining $24.0 million of interest rate swaps were used to hedge the variable cash outflows (Ameribor-based) associated with a brokered deposit. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. During the three and six months ended June 30, 2021 and 2020, the Corporation did not recognize any ineffectiveness.

Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on the Corporation's variable-rate liabilities. During the next twelve months, the Corporation expects to reclassify $1.0 million from accumulated other comprehensive income to interest expense.

Non-designated Hedges

The Corporation does not use derivatives for trading or speculative purposes. Derivatives not designated as hedges are not speculative and result from a service the Corporation provides to certain customers. The Corporation executes interest rate swaps with commercial banking customers to facilitate their respective risk management strategies. Those interest rate swaps are simultaneously hedged by offsetting interest rate swaps that the Corporation executes with a third party, such that the Corporation minimizes its net risk exposure resulting from such transactions. As the interest rate swaps associated with this program do not meet the strict hedge accounting requirements, changes in the fair value of both the customer swaps and the offsetting swaps are recognized directly in earnings. As of June 30, 2021 and December 31, 2020, the notional amount of customer-facing swaps was approximately $1.0 billion and $985.0 million, respectively. These amounts are offset with third party counterparties, as described above.

Fair Values of Derivative Instruments on the Balance Sheet

The table below presents the fair value of the Corporation's derivative financial instruments, as well as their classification on the Balance Sheet, as of June 30, 2021, and December 31, 2020.

	Asset Derivatives				Liability Derivatives			
	June 30, 2021		December 31, 2020		June 30, 2021		December 31, 2020	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments:								
Interest rate contracts	Other Assets	$ —	Other Assets	$ —	Other Liabilities	$ 1,464	Other Liabilities	$ 2,018
Derivatives not designated as hedging instruments:								
Interest rate contracts	Other Assets	$ 51,845	Other Assets	$ 74,335	Other Liabilities	$ 51,845	Other Liabilities	$ 74,335

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

	Amount of Gain (Loss) Recognized in Other Comprehensive Income on Derivative (Effective Portion)			
	Three Months Ended		Six Months Ended	
Derivatives in Cash Flow Hedging Relationships	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
Interest Rate Products	$ (16)	$ (145)	$ 42	$ (1,459)

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

Effect of Derivative Instruments on the Income Statement

The Corporation did not recognize any gains or losses from derivative financial instruments in the Consolidated Condensed Statements of Income for the three and six months ended June 30, 2021 and 2020.

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

Derivatives Designated as Hedging Instruments under FASB ASC 815-10	Location of Gain (Loss) Recognized Income on Derivative	Amount of Gain (Loss) Reclassed from Other Comprehensive Income into Income (Effective Portion)	
		Three Months Ended June 30, 2021	Three Months Ended June 30, 2020
Interest rate contracts	Interest Expense	$ (260)	$ (231)

Derivatives Designated as Hedging Instruments under FASB ASC 815-10	Location of Gain (Loss) Recognized Income on Derivative	Amount of Gain (Loss) Reclassed from Other Comprehensive Income into Income (Effective Portion)	
		Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
Interest rate contracts	Interest Expense	$ (513)	$ (357)

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 June 30, 2021, the termination value of derivatives in a net liability position related to these agreements was $47.8 million. As of June 30, 2021, the Corporation has minimum collateral posting thresholds with certain of its derivative counterparties and has posted collateral of $62.8 million. While the Corporation did not breach any of these provisions as of June 30, 2021, if it had, the Corporation could have been required to settle its obligations under the agreements at their termination value.

NOTE 8

DISCLOSURES ABOUT FAIR VALUE OF ASSETS AND LIABILITIES

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

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

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

the lowest level input that is significant to the fair value measurement in its entirety. The Corporation considers an input to be significant if it drives 10 percent or more of the total fair value of a particular asset or liability.

RECURRING MEASUREMENTS

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

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

Investment Securities

Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. The Corporation currently has no securities classified within Level 1 of the hierarchy. Where significant observable inputs, other than Level 1 quoted prices, are available, securities are classified within Level 2 of the valuation hierarchy. Level 2 securities include U.S. treasury securities, 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, 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.

Interest Rate Derivative Agreements

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

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the ASC 820 fair value hierarchy in which the fair value measurements fall at June 30, 2021, and December 31, 2020.

		Fair Value Measurements Using:		
June 30, 2021	**Fair Value**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Available for sale securities:				
U.S. Treasury	$ 1,000	$ —	$ 1,000	$ —
U.S. Government-sponsored agency securities	11,541	—	11,541	—
State and municipal	1,451,845	—	1,446,085	5,760
U.S. Government-sponsored mortgage-backed securities	958,286	—	958,282	4
Corporate obligations	4,228	—	4,197	31
Interest rate swap asset	51,845	—	51,845	—
Interest rate swap liability	53,309	—	53,309	—

		Fair Value Measurements Using:		
December 31, 2020	**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	$ 2,430	$ —	$ 2,430	$ —
State and municipal	1,257,885	—	1,255,441	2,444
U.S. Government-sponsored mortgage-backed securities	654,669	—	654,665	4
Corporate obligations	4,135	—	4,104	31
Interest rate swap asset	74,335	—	74,335	—
Interest rate swap liability	76,353	—	76,353	—

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 June 30, 2021 or December 31, 2020.

Level 3 Reconciliation

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying balance sheets using significant unobservable Level 3 inputs for the three and six months ended June 30, 2021 and 2020.

	Available for Sale Securities			
	Three Months Ended		Six Months Ended	
	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
Balance at beginning of the period	$ 2,146	$ 2,528	$ 2,479	$ 2,892
Included in other comprehensive income	412	(30)	353	(50)
Purchases, issuances and settlements	3,241	—	3,241	—
Principal payments	(4)	2	(278)	(342)
Ending balance	$ 5,795	$ 2,500	$ 5,795	$ 2,500

Transfers Between Levels

There were no transfers in or out of Level 3 for the three and six months ended June 30, 2021 and 2020.

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 June 30, 2021, and December 31, 2020.

		Fair Value Measurements Using		
June 30, 2021	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Collateral dependent loans	$ 43,292	$ —	$ —	$ 43,292
Other real estate owned	167	—	—	167

		Fair Value Measurements Using		
December 31, 2020	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans (collateral dependent)	$ 37,250	$ —	$ —	$ 37,250
Other real estate owned	544	—	—	544

Impaired Loans (collateral dependent)

Loans for which it is probable that the Corporation will not collect all principal and interest due according to contractual terms are measured for impairment. Allowable methods for determining the amount of impairment include estimating fair value of the collateral for collateral dependent loans. If the impaired loan is identified as collateral dependent, then the fair value method of measuring the amount of impairment is utilized. This method requires obtaining a current independent appraisal of the collateral and applying a discount factor to the value. A portion of the allowance for loan losses is allocated to impaired loans if the value of such loans is deemed to be less than the unpaid balance. If these allocations cause the allowance for loan losses to increase, such increase is reported as a component of the provision for loan losses. Loan losses are charged against the allowance when management believes the uncollectability of the loan is confirmed. During 2020 and 2021, certain impaired loans were partially charged off or re-evaluated. Impaired loans that are collateral dependent are classified within Level 3 of the fair value hierarchy when impairment is determined using the fair value method.

Other Real Estate Owned

The fair value for impaired loans and other real estate owned is measured based on the value of the collateral securing those loans or real estate and is determined using several methods. The fair value of real estate is generally determined based on appraisals by qualified licensed appraisers. The appraisers typically determine the value of the real estate by utilizing an income or market valuation approach. If an appraisal is not available, the fair value may be determined by using a discounted cash flow analysis. Fair value on other collateral such as business assets is typically ascertained by assessing, either singularly or some combination of, asset appraisals, accounts receivable aging reports, inventory listings and/or customer financial statements. Both appraised values and values based on borrower’s financial information are discounted as considered appropriate based on age and quality of the information and current market conditions.

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 June 30, 2021 and December 31, 2020.

June 30, 2021		Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted-Average)
State and municipal securities	$	5,760	Discounted cash flow	Maturity/Call date	1 month to 15 years
				US Muni BQ curve	A- to BBB--
				Discount rate	.75% - 4%
				Weighted-average coupon	4 %
Corporate obligations and U.S. Government-sponsored mortgage-backed securities	$	35	Discounted cash flow	Risk free rate	3 month LIBOR
				plus premium for illiquidity	plus 200bps
				Weighted-average coupon	—%
Collateral dependent loans	$	43,292	Collateral based measurements	Discount to reflect current market conditions and ultimate collectability	0% - 10%
				Weighted-average discount by loan balance	3 %
Other real estate owned	$	167	Appraisals	Discount to reflect current market conditions	0% - 72%
				Weighted-average discount of other real estate owned balance	39%

December 31, 2020		Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted-Average)
State and municipal securities	$	2,444	Discounted cash flow	Maturity/Call date	1 month to 15 years
				US Muni BQ curve	A- to BBB-
				Discount rate	1.50% - 4%
				Weighted-average coupon	4 %
Corporate obligations and U.S Government-sponsored mortgage-backed securities	$	35	Discounted cash flow	Risk free rate	3 month LIBOR
				plus premium for illiquidity	plus 200bps
				Weighted-average coupon	—%
Impaired loans (collateral dependent)	$	37,250	Collateral based measurements	Discount to reflect current market conditions and ultimate collectability	0% - 10%
				Weighted-average discount by loan balance	6%
Other real estate owned	$	544	Appraisals	Discount to reflect current market conditions	0% - 30%
				Weighted-average discount of other real estate owned balance	26%

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 June 30, 2021, and December 31, 2020.

	June 30, 2021			
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash and cash equivalents	$ 167,596	$ 167,596	$ —	$ —
Interest-bearing deposits	438,863	438,863	—	—
Investment securities available for sale	2,426,900	—	2,421,105	5,795
Investment securities held to maturity	1,721,414	—	1,745,282	15,565
Loans held for sale	18,582	—	18,582	—
Loans, net	8,921,475	—	—	8,976,919
Federal Home Loan Bank stock	28,736	—	28,736	—
Interest rate swap asset	51,845	—	51,845	—
Interest receivable	54,173	—	54,173	—
Liabilities:				
Deposits	$ 12,203,400	$ 11,419,155	$ 782,802	$ —
Borrowings:				
Securities sold under repurchase agreements	146,904	—	146,900	—
Federal Home Loan Bank advances	334,243	—	340,783	—
Subordinated debentures and other borrowings	118,498	—	107,751	—
Interest rate swap liability	53,309	—	53,309	—
Interest payable	2,929	—	2,929	—

	December 31, 2020			
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash and cash equivalents	$ 192,896	$ 192,896	$ —	$ —
Interest-bearing deposits	392,305	392,305	—	—
Investment securities available for sale	1,919,119	—	1,916,640	2,479
Investment securities held to maturity	1,227,668	—	1,260,815	19,478
Loans held for sale	3,966	—	3,966	—
Loans, net	9,112,526	—	—	9,191,628
Federal Home Loan Bank stock	28,736	—	28,736	—
Interest rate swap asset	74,335	—	74,335	—
Interest receivable	53,948	—	53,948	—
Liabilities:				
Deposits	$ 11,361,610	$ 10,482,865	$ 878,257	$ —
Borrowings:				
Securities sold under repurchase agreements	177,102	—	177,097	—
Federal Home Loan Bank advances	389,430	—	399,991	—
Subordinated debentures and other borrowings	118,380	—	108,439	—
Interest rate swap liability	76,353	—	76,353	—
Interest payable	3,287	—	3,287	—

NOTE 9

TRANSFERS ACCOUNTED FOR AS SECURED BORROWINGS

The collateral pledged for all repurchase agreements that are accounted for as secured borrowings as of June 30, 2021 and December 31, 2020 were:

	June 30, 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	$ 145,249	$ 800	$ —	$ 855	$ 146,904

	December 31, 2020				
	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	$ 175,449	$ —	$ 1,653	$ —	$ 177,102

NOTE 10

ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table summarizes the changes in the balances of each component of accumulated other comprehensive income (loss), net of tax, as of June 30, 2021 and 2020:

	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, 2020	$ 87,988	$ (1,594)	$ (11,558)	$ 74,836
Other comprehensive income (loss) before reclassifications	(12,382)	33	—	(12,349)
Amounts reclassified from accumulated other comprehensive income	(2,812)	405	—	(2,407)
Period change	(15,194)	438	—	(14,756)
Balance at June 30, 2021	$ 72,794	$ (1,156)	$ (11,558)	$ 60,080
Balance at December 31, 2019	$ 38,872	$ (1,141)	$ (9,857)	$ 27,874
Other comprehensive income (loss) before reclassifications	42,909	(1,153)	—	41,756
Amounts reclassified from accumulated other comprehensive income	(6,067)	282	—	(5,785)
Period change	36,842	(871)	—	35,971
Balance at June 30, 2020	$ 75,714	$ (2,012)	$ (9,857)	$ 63,845

The following table presents the reclassification adjustments out of accumulated other comprehensive income (loss) that were included in net income in the Consolidated Condensed Statements of Income for the three and six months ended June 30, 2021 and 2020.

	Amount Reclassified from Accumulated Other Comprehensive Income (Loss) For the Three Months Ended June 30,		
Details about Accumulated Other Comprehensive Income (Loss) Components	**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	$ 1,761	$ 3,068	Other income - net realized gains on sales of available for sale securities
Related income tax expense	(370)	(644)	Income tax expense
	$ 1,391	$ 2,424	
Unrealized gains (losses) on cash flow hedges [2]			
Interest rate contracts	$ (260)	$ (231)	Interest expense - subordinated debentures and term loans
Related income tax benefit	55	49	Income tax expense
	$ (205)	$ (182)	
Total reclassifications for the period, net of tax	$ 1,186	$ 2,242	

	Amount Reclassified from Accumulated Other Comprehensive Income (Loss) For the Six Months Ended June 30,		
Details about Accumulated Other Comprehensive Income (Loss) Components	**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	$ 3,560	$ 7,680	Other income - net realized gains on sales of available for sale securities
Related income tax expense	(748)	(1,613)	Income tax expense
	$ 2,812	$ 6,067	
Unrealized gains (losses) on cash flow hedges [2]			
Interest rate contracts	$ (513)	$ (357)	Interest expense - subordinated debentures and term loans
Related income tax benefit	108	75	Income tax expense
	$ (405)	$ (282)	
Total reclassifications for the period, net of tax	$ 2,407	$ 5,785	

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

NOTE 11

SHARE-BASED COMPENSATION

Stock options and RSAs have been issued to directors, officers and other management employees under the Corporation's 2009 Long-term Equity Incentive Plan, the 2019 Long-term Equity Incentive Plan, and the Equity Compensation Plan for Non-Employee Directors. The stock options, which have a ten year life, become 100 percent vested based on time ranging from one year to two years and are fully exercisable when vested. Option exercise prices equal the Corporation's common stock closing price on NASDAQ on the date of grant. The RSAs issued to employees and non-employee directors provide for the issuance of shares of the Corporation's common stock at no cost to the holder and generally vest after 3 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.

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

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

Compensation expense related to unvested share-based awards is recorded by recognizing the unamortized grant date fair value of these awards over the remaining service periods of those awards, with no change in historical reported fair values and earnings. Awards are valued at
fair value in accordance with provisions of share-based compensation guidance and are recognized on a straight-line basis over the service periods of each award. To complete the exercise of vested stock options, RSA's and ESPP options, the Corporation generally issues new shares from its authorized but unissued share pool. Share-based compensation for the three and six months ended June 30, 2021 was $1,208,000 and $2,398,000, respectively, compared to $1,214,000 and $2,433,000, respectively, for the three and six months ended June 30, 2020. Share-based compensation has been recognized as a component of salaries and benefits expense in the accompanying Consolidated Condensed Statements of Income.

Share-based compensation expense recognized in the Consolidated Condensed Statements of Income is based on awards ultimately expected to vest and is reduced for estimated forfeitures. Share-based compensation guidance requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods, if actual forfeitures differ from those estimates. Pre-vesting forfeitures were estimated to be approximately 0.5 percent for the six months ended June 30, 2021, 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.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Stock and ESPP Options				
Pre-tax compensation expense	$ 40	$ 12	$ 115	$ 53
Income tax expense (benefit)	(20)	(29)	(92)	(29)
Stock and ESPP option expense, net of income taxes	$ 20	$ (17)	$ 23	$ 24
Restricted Stock Awards				
Pre-tax compensation expense	$ 1,168	$ 1,202	$ 2,283	$ 2,380
Income tax expense (benefit)	(246)	(236)	(483)	(493)
Restricted stock awards expense, net of income taxes	$ 922	$ 966	$ 1,800	$ 1,887
Total Share-Based Compensation				
Pre-tax compensation expense	$ 1,208	$ 1,214	$ 2,398	$ 2,433
Income tax expense (benefit)	(266)	(265)	(575)	(522)
Total share-based compensation expense, net of income taxes	$ 942	$ 949	$ 1,823	$ 1,911

As of June 30, 2021, unrecognized compensation expense related to RSAs was $7.5 million and is expected to be recognized over a weighted-average period of 1.79 years. The Corporation did not have any unrecognized compensation expense related to stock options as of June 30, 2021.

Stock option activity under the Corporation's stock option plans as of June 30, 2021 and changes during the six months ended June 30, 2021, were as follows:

	Number of Shares	Weighted-Average Exercise Price	Weighted Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2021	45,800	$ 15.00		
Exercised	(17,300)	$ 11.46		
Outstanding June 30, 2021	28,500	$ 17.14	2.00	$ 699,060
Vested and Expected to Vest at June 30, 2021	28,500	$ 17.14	2.00	$ 699,060
Exercisable at June 30, 2021	28,500	$ 17.14	2.00	$ 699,060

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the Corporation's closing stock price on the last trading day of the first six months of 2021 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 June 30, 2021. 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 six months ended June 30, 2021 and 2020 was $559,000 and $197,000, respectively. Cash receipts of stock options exercised during this same period were $198,000 and $83,000, respectively.

The following table summarizes information on unvested RSAs outstanding as of June 30, 2021:

	Number of Shares	Weighted-Average Grant Date Fair Value
Unvested RSAs at January 1, 2021	357,883	$ 36.30
Granted	77,216	$ 42.52
Vested	(4,660)	$ 42.14
Forfeited	(5,050)	$ 36.56
Unvested RSAs at June 30, 2021	425,389	$ 37.36

The grant date fair value of ESPP options was estimated to be approximately $40,000 at the beginning of the April 1, 2021 quarterly offering period. The ESPP options vested during the three months ending June 30, 2021, leaving no unrecognized compensation expense related to unvested ESPP options at June 30, 2021.

NOTE 12

INCOME TAX

The following table summarizes the major components creating differences between income taxes at the federal statutory and the effective tax rate recorded in the consolidated statements of income for the three and six months ended June 30, 2021 and 2020:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Reconciliation of Federal Statutory to Actual Tax Expense:				
Federal statutory income tax at 21%	$ 13,830	$ 7,899	$ 26,098	$ 15,827
Tax-exempt interest income	(3,893)	(3,199)	(7,599)	(6,221)
Share-based compensation	(13)	(6)	(72)	(6)
Tax-exempt earnings and gains on life insurance	(253)	(278)	(534)	(564)
Tax credits	(77)	(89)	(150)	(150)
CARES Act - NOL carryback rate differential	—	—	—	(1,178)
State Income Tax	872	164	1,574	250
Other	(172)	132	(71)	155
Actual Tax Expense	$ 10,294	$ 4,623	$ 19,246	$ 8,113
Effective Tax Rate	15.6 %	12.3 %	15.5 %	10.8 %

NOTE 13

NET INCOME PER SHARE

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

The following table reconciles basic and diluted net income per share for the three and six months ended June 30, 2021 and 2020.

	Three Months Ended June 30,					
	2021			2020		
	Net Income	Weighted-Average Shares	Per Share Amount	Net Income	Weighted-Average Shares	Per Share Amount
Net income available to common stockholders	$ 55,559	53,956,296	$ 1.03	$ 32,992	53,762,913	$ 0.62
Effect of potentially dilutive stock options and restricted stock awards		228,128			179,654	
Diluted net income per share	$ 55,559	54,184,424	$ 1.03	$ 32,992	53,942,567	$ 0.62

	Six Months Ended June 30,					
	2021			2020		
	Net Income	Weighted-Average Shares	Per Share Amount	Net Income	Weighted-Average Shares	Per Share Amount
Net income available to common stockholders	$ 105,028	53,943,248	$ 1.95	$ 67,255	54,247,493	$ 1.24
Effect of potentially dilutive stock options and restricted stock awards		216,084			182,026	
Diluted net income per share	$ 105,028	54,159,332	$ 1.94	$ 67,255	54,429,519	$ 1.24

For the three and six months ended June 30, 2021 and 2020, there were no stock options with an option price greater than the average market price of the common shares.

NOTE 14
GENERAL LITIGATION AND REGULATORY EXAMINATIONS

See Item 1. LEGAL PROCEEDINGS in Part II of this Form 10-Q for information relating to certain pending litigation. There are no other pending legal proceedings, other than litigation incidental to the ordinary business of the Corporation or its subsidiaries, of a material nature to which the Corporation or its subsidiaries is a party or of which any of their properties are subject. The Corporation is also subject to periodic examinations by various regulatory agencies. It is the general opinion of management that the disposition or ultimate resolution of any such routine litigation or regulatory examinations will not have a material adverse effect on the consolidated financial position, results of operations and cash flow of the Corporation.

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

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
FORWARD-LOOKING STATEMENTS

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

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

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

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

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

CRITICAL ACCOUNTING POLICIES
Generally accepted accounting principles are complex and require us to apply significant judgments to various accounting, reporting and disclosure matters. We must use assumptions and estimates to apply those principles where actual measurement is not possible or practical. For a complete discussion of our significant accounting policies, see “Notes to the Consolidated Financial Statements” in our Annual Report on Form 10-K for the year ended December 31, 2020. Certain policies are considered critical because they are highly dependent upon subjective or complex judgments, assumptions and estimates. Changes in such estimates may have a significant impact on the financial statements. The uncertainties related to COVID-19 could cause significant changes to these estimates compared to what was known at the time these financial statements were prepared.

We believe there have been no significant changes during the six months ended June 30, 2021 to the items that we disclosed as our critical accounting policies and estimates in Management’s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2020, with the exception of the adoption of 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. Certain accounting policies were revised and certain accounting policy elections were implemented, related to the adoption of CECL.

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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. In addition, CECL includes certain changes to the accounting for investment securities available for sale depending on whether management intends to sell the securities or believes that it is more likely than not they will be required to sell. See NOTE 1. GENERAL, NOTE 3. INVESTMENT SECURITIES and NOTE 4. LOANS AND ALLOWANCE of the Notes to Consolidated Condensed Financial Statements of this Quarterly Report on Form 10-Q for details of the accounting policy changes related to the adoption of CECL.

BUSINESS SUMMARY

First Merchants Corporation (the "Corporation") is a financial holding company headquartered in Muncie, Indiana and was organized in September 1982. The Corporation's Common Stock is traded on NASDAQ's Global Select Market System under the symbol FRME. The Corporation has one full-service bank charter, First Merchants Bank (the "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 109 banking locations in Indiana, Illinois, Ohio and Michigan. In addition to its traditional 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.

COVID-19 UPDATE

The COVID-19 pandemic continued to impact the Corporation's operations during the three and six months ended June 30, 2021. With certain states and localities having recently experienced significant increases in the number of individuals diagnosed with COVID-19 as variant strains of the virus have spread, uncertainty remains about the ultimate duration of the pandemic and the timing and strength of the economic recovery. As the pandemic has evolved, we have continued to support our customers by providing assistance to those affected by the pandemic, including by working with borrowers who are or may be unable to meet their contractual payment obligations due to the effects of COVID-19 and by originating loans under the Paycheck Protection Program ("PPP").

The CARES Act and the Paycheck Protection Program

As previously reported, the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act") was signed into law in March 2020, establishing the PPP, a lending program administered by the Small Business Administration ("SBA") that was intended to incentivize small businesses, eligible nonprofits and certain others to retain their employees by providing them with loans that are fully guaranteed by the U.S. government and subject to forgiveness if program guidelines are met. The ability of borrowers to apply for loans under the PPP ended on May 31, 2021, with the SBA having until June 30, 2021 to process loan applications.

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 June 30, 2021, the Bank had over 3,200 PPP loans representing $415.8 million, which is net of $12.3 million of deferred processing fee income and costs. The weighted-average deferred processing fee on PPP loans was approximately 3.99 percent and is recognized over the term of the loan. As of June 30, 2021, $595.7 million of the Bank's PPP loans had been forgiven by the SBA. The Bank anticipates that the majority of its remaining PPP loans will also be forgiven by the SBA in accordance with the terms of the program. If a loan is forgiven by the SBA or paid off by the borrower prior to maturity, any unamortized portion of the fee will be recognized immediately. During the three and six months ended June 30, 2021, the Corporation recognized interest income on PPP loans of $1.6 million and $3.2 million, respectively, compared to $1.8 million for both the three and six months ended June 30, 2020. Additionally, PPP loan related deferred processing fee income of $8.2 million and $15.7 million was recorded during the three and six month ended June 30, 2021, respectively, compared to $2.9 million for both the three and six months ended June 30, 2020. PPP deferred processing fee income is recorded as a yield adjustment.

Loan Modifications and Troubled Debt Restructures

As previously reported, the Bank's banking regulators issued guidance in March 2020 encouraging financial institutions to work prudently with borrowers who are or may be unable to meet their contractual payment obligations due to the effects of COVID-19. Additionally, Section 4013 of the CARES Act had further provided that a qualified loan modification is exempt by law from classification as a troubled debt restructure as defined by GAAP, from the period beginning March 1, 2020 until the earlier of December 31, 2020 or the date that is 60 days after the date on which the national emergency concerning the COVID-19 outbreak under the National Emergencies Act (50 U.S.C. 1601 et seq.) terminates. In accordance with that guidance, the Bank has offered short-term modifications made in response to COVID-19 to 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 are insignificant. With the enactment of the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act, which was signed into law as part of the Consolidated Appropriations Act, 2021 (the "CAA"), the CARES Act was amended to, among other things, extend the expiration date for COVID-related loan modifications exempt from troubled debt restructuring classification until the earlier of January 1, 2022, or 60 days after the termination of the national emergency. As of June 30, 2021, $40.3 million in loan balances remained in deferral. Details of the modifications are included in the "LOAN QUALITY" section of this Management's Discussion and Analysis of Financial Condition and Results of Operations.

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CECL Implementation
Accounting Standards Update No. 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit losses on Financial Instruments* ("CECL") had an original adoption date of January 1, 2020, which included a day 1 measurement date of January 1, 2020. Pursuant to the CARES Act, which created an optional deferral of the CECL adoption date, and the related joint statement of federal banking regulators (which also became effective in March 2020), and consistent with guidance from the SEC and FASB, the Corporation elected to delay implementation of ASU No. 2016-13, the optional deferral of which was set to expire on December 31, 2020. However, the CAA amended the CARES Act by extending the temporary relief from CECL compliance to the earlier of the first day of the fiscal year that begins after the date on which the national emergency concerning COVID-19 terminates, or January 1, 2022. The Corporation elected to delay implementation of CECL following the approval of the CARES Act and, with the enactment of the CAA, the Corporation elected to delay adoption of CECL to January 1, 2021. As a result of the Corporation's election, its 2020 financial statements have been prepared under the incurred loss model and its 2021 financial statements have been prepared under the CECL model.

Regulatory Capital
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 CAA provided for a further extension of the mandatory adoption of CECL to the earlier of the first day of the fiscal year that begins after the date on which the national emergency concerning COVID-19 terminates, or January 1, 2022, the federal banking regulators have 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 discussed above, the Corporation elected to delay implementation of ASU No. 2016-13 until January 1, 2021 and, as a result, will recognize the implementation effects of CECL on its regulatory capital over a three-year transition period. Beginning on January 1, 2021, the Corporation phased in 25 percent of the deferred capital impact of CECL, with an additional 25 percent to be phased in at the beginning of the following three years, resulting in the impact being fully phased in on January 1, 2024.

RESULTS OF OPERATIONS

The Corporation reported second quarter 2021 net income of $55.6 million, compared to $33.0 million during the second quarter of 2020. Diluted earnings per share for the second quarter 2021 totaled $1.03 per share, compared to $0.62 per diluted share during the same period in 2020. Year-to-date net income totaled $105.0 million, compared to $67.3 million during the same period in 2020. Diluted earnings per share for the six months ended June 30, 2021 was $1.94 per share, compared to $1.24 per share during the same period in 2020.

As of June 30, 2021, total assets equaled $14.9 billion, an increase of $855.9 million, or 6.1 percent, from December 31, 2020. A portion of the excess liquidity created from deposit growth resulted in an increase in the Corporation's investment in interest-bearing deposits of $46.6 million compared to December 31, 2020. This increase was offset by a decrease in cash and cash equivalents when compared to December 31, 2020 of $25.3 million.

The Corporation's total loan portfolio decreased $107.3 million from December 31, 2020. As of June 30, 2021, PPP loans, which are included in the commercial and industrial loans class, totaled $415.8 million, a decrease of $251.3 million from the December 31, 2020 balance of $667.1 million. Other loan classes that experienced the largest decreases from December 31, 2020 were residential real estate and agricultural land, production and other loans to farmers. The largest loan classes that experienced an increase from December 31, 2020 were public finance and other commercial loans and commercial real estate, non-owner occupied. Additional details of the changes in the Corporation's loans are discussed within NOTE 4. LOANS AND ALLOWANCE of the Notes to Consolidated Condensed Financial Statements of this Quarterly Report on Form 10-Q, and the "LOAN QUALITY AND PROVISION FOR CREDIT LOSSES ON LOANS" section of this Management's Discussion and Analysis of Financial Condition and Results of Operations.

Total investment securities increased $1.0 billion from December 31, 2020 as the excess liquidity from deposit growth was used to invest in the bond portfolio. Additional details of the changes in the Corporation's investment securities portfolio are discussed within NOTE 3. INVESTMENT SECURITIES of the Notes to Consolidated Condensed Financial Statements of this Quarterly Report on Form 10-Q.

The Corporation's allowance for credit losses - loans totaled $199.8 million as of June 30, 2021 and equaled 2.19 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 4. LOANS AND ALLOWANCE of the Notes to Consolidated Condensed Financial Statements of this Quarterly Report on Form 10-Q.

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The Corporation did not recognize any provision expense during the three and six months ended June 30, 2021, compared to provision expense of $21.9 million and $41.6 million, respectively, during the same periods of the prior year. The provision expense taken during the three and six months ended June 30, 2020 reflected the Corporation's view of increased credit risk related to the COVID-19 pandemic. Net charge-offs in the second quarter of 2021 were $1.3 million, compared to net charge-offs of $230,000 during the same period of 2020. Net charge-offs in the six months ended June 30, 2021 were $4.9 million, compared to net charge-offs of $812,000 during the same period of 2020. Non-accrual loans totaled $57.6 million, a decrease of $3.9 million from December 31, 2020, resulting in a coverage ratio of 347.1 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.

The Corporation's net tax asset, deferred and receivable increased $24.6 million from December 31, 2020. As a result of the CECL adoption on January 1, 2021, the cumulative effect of adoption resulted in a deferred tax asset of $22.0 million. Additionally, the decrease in unrealized gains on available for sale investment securities resulted in a $4.0 million decline in the deferred tax liability. Both, the increase in deferred tax asset from CECL adoption and the decrease in deferred tax liability related to unrealized gains on available for sale investment securities, increase the net deferred tax asset.

The Corporation previously 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 other assets decreased $10.3 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 $22.5 million and $23.0 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 more directional certainty as to the outcome of COVID, fiscal stimulus and the demand for goods and services from it.

As of June 30, 2021, total deposits equaled $12.2 billion, an increase of $841.8 million from December 31, 2020. The Corporation experienced increases from December 31, 2020 in demand and savings accounts of $440.5 million and $495.8 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 $77.0 million and $17.5 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 $85.3 million as of June 30, 2021, compared to December 31, 2020. Federal Home Loan Bank advances decreased $55.2 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 decreased by $30.2 million.

The Corporation's other liabilities as of June 30, 2021 increased $103.6 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 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. The Corporation also accrued $110.7 million of trade date accounting related to investment securities purchases as of June 30, 2021, of which, the accrual was $6.2 million as of December 31, 2020. Additionally, as noted above, the derivative hedge liability decreased $23.0 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 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.

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NET INTEREST INCOME

Net interest income is the most significant component of our earnings, comprising 79 percent of revenues for the six months ended June 30, 2021. Net interest income and margin are influenced by many factors, primarily the volume and mix of earning assets, funding sources, and interest rate fluctuations. Other factors include the level of accretion income on purchased loans, prepayment risk on mortgage and investment-related assets, and the composition and maturity of earning assets and interest-bearing liabilities. Loans typically generate more interest income than investment securities with similar maturities. Funding from customer deposits generally cost less than wholesale funding sources. Factors such as general economic activity, Federal Reserve Board monetary policy, and price volatility of competing alternative investments, can also exert significant influence on our ability to optimize the mix of assets and funding and the net interest income and margin.

Net interest income is the excess of interest received from earning assets over interest paid on interest-bearing liabilities. For analytical purposes, net interest income is also presented on an FTE basis in the tables that follow to reflect what tax-exempt assets would need to yield in order to achieve the same after-tax yield as a taxable asset. The federal statutory rate of 21 percent was used for all periods, adjusted for the TEFRA interest disallowance applicable to certain tax-exempt obligations. The FTE analysis portrays the income tax benefits associated with tax-exempt assets and helps to facilitate a comparison between taxable and tax-exempt assets. Management believes that it is a standard practice in the banking industry to present net interest margin and net interest income on a fully taxable equivalent basis. Therefore, management believes these measures provide useful information for both management and investors by allowing them to make peer comparisons.

Net interest margin, on a tax equivalent basis, increased 3 basis points to 3.22 percent for three months ended June 30, 2021 compared to 3.19 percent for the same period in 2020. Average earning assets for the three months ended June 30, 2021 increased $1.4 billion compared to the same period in 2020, and was primarily attributable to an increase in investment securities and loans of $1.1 billion and $101.9 million, respectively. Since the beginning of the PPP in April 2020, the Bank has originated over $1.2 billion of PPP loans, which averaged $620.5 million in the second quarter of 2021. The increase in the investment securities portfolio was the result of excess liquidity generated from growth in deposits being used to invest in the bond portfolio.

In the second quarter of 2021, FTE asset yields decreased 23 basis points compared to the same period in 2020. This decrease was primarily a result of the decline in the Investment Portfolio yield of 31 basis points compared to the same period in 2020. The PPP loans originated were recorded at an interest rate of only 1 percent, but the Corporation also recognized fee income of $8.2 million during the second quarter of 2021, which is included in interest income.

The Corporation recognized fair value accretion income on purchased loans, which is included in interest income, of $2.5 million, which accounted for 7 basis points of net interest margin in the second quarter of 2021. Comparatively, the Corporation recognized $3.7 million of accretion income for the second quarter of 2020, or 12 basis points of net interest margin.

Interest costs decreased 33 basis points, which mitigated the decrease in asset yields and resulted in a 10 basis point FTE increase in net interest spread as compared to the same period in 2020. Interest costs have decreased as management aggressively moved deposit rates down. Interest-bearing deposits and borrowing costs for the three months ended June 30, 2021 were 0.24 percent and 1.98 percent, respectively, compared to 0.59 percent and 1.55 percent, respectively, during the same period in 2020.

Net interest margin, on a tax equivalent basis, decreased 9 basis points to 3.23 percent for six months ended June 30, 2021 compared to 3.32 percent for the same period in 2020. Average earning assets for the six months ended June 30, 2021 increased $1.6 billion compared to the same period in 2020, and was primarily attributable to an increase in investment securities and loans of $922.1 million and $406.0 million, respectively. PPP loans averaged $638.6 million in 2021. The increase in the investment securities portfolio was the result of excess liquidity generated from growth in deposits being used to invest in the bond portfolio.

In the six months ended June 30, 2021, FTE asset yields decreased 53 basis points compared to the same period in 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, and the decline in one-month LIBOR from June 30, 2020 to June 30, 2021 of 6 basis points. Additionally, the yield of the Investment Portfolio decreased 32 basis points compared to the same period in 2020. The PPP loans originated were recorded at an interest rate of only 1 percent, but the Corporation also recognized fee income of $15.7 million during the six months ended June 30, 2021, which is included in interest income.

The Corporation recognized fair value accretion income on purchased loans, which is included in interest income, of $4.3 million, which accounted for 7 basis points of net interest margin in the six months ended June 30, 2021. Comparatively, the Corporation recognized $7.2 million of accretion income for the six months ended June 30, 2020, or 12 basis points of net interest margin.

Interest costs decreased 55 basis points, which mitigated the decrease in asset yields and resulted in a 2 basis point FTE increase 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. Interest-bearing deposits and borrowing costs for the six months ended June 30, 2021 of 0.25 percent and 1.93 percent, respectively, decreased from 0.82 percent and 1.86 percent, respectively, during the same period in 2020.

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The following tables presents the Corporation's average balance sheet, interest income/interest expense, and the average rate as a percent of average earning assets/liabilities for the three months ended June 30, 2021, and 2020.

(Dollars in Thousands)	Three Months Ended					
	June 30, 2021			June 30, 2020		
	Average Balance	Interest Income / Expense	Average Rate	Average Balance	Interest Income / Expense	Average Rate
Assets:						
Interest-bearing deposits	$ 545,752	$ 129	0.09 %	$ 378,489	$ 134	0.14 %
Federal Home Loan Bank stock	28,736	88	1.22	28,736	281	3.91
Investment Securities: [1]						
Taxable	1,732,367	7,440	1.72	1,282,080	6,147	1.92
Tax-Exempt [2]	1,969,577	16,546	3.36	1,317,527	12,682	3.85
Total Investment Securities	3,701,944	23,986	2.59	2,599,607	18,829	2.90
Loans held for sale	25,039	237	3.79	12,630	131	4.15
Loans: [3]						
Commercial	6,953,227	70,886	4.08	6,890,010	69,463	4.03
Real Estate Mortgage	912,662	9,488	4.16	887,257	10,122	4.56
Installment	659,515	6,391	3.88	724,165	7,596	4.20
Tax-Exempt [2]	732,081	7,019	3.84	666,548	6,784	4.07
Total Loans	9,282,524	94,021	4.05	9,180,610	94,096	4.10
Total Earning Assets	13,558,956	118,224	3.49 %	12,187,442	113,340	3.72 %
Net unrealized gain on securities available for sale	44,250			56,807		
Allowance for credit losses	(201,051)			(106,858)		
Cash and cash equivalents	171,489			303,491		
Premises and equipment	107,369			113,528		
Other assets	1,077,584			1,100,912		
Total Assets	$ 14,758,597			$ 13,655,322		
Liabilities:						
Interest-bearing deposits:						
Interest-bearing deposits	$ 4,745,181	$ 3,560	0.30 %	$ 3,951,819	$ 4,186	0.42 %
Money market deposits	2,337,143	796	0.14	1,673,104	1,696	0.41
Savings deposits	1,740,233	462	0.11	1,521,312	596	0.16
Certificates and other time deposits	812,370	1,005	0.49	1,498,002	6,229	1.66
Total Interest-bearing Deposits	9,634,927	5,823	0.24	8,644,237	12,707	0.59
Borrowings	644,702	3,188	1.98	909,258	3,527	1.55
Total Interest-bearing Liabilities	10,279,629	9,011	0.35	9,553,495	16,234	0.68
Noninterest-bearing deposits	2,490,226			2,145,672		
Other liabilities	142,705			160,646		
Total Liabilities	12,912,560			11,859,813		
Stockholders' Equity	1,846,037			1,795,509		
Total Liabilities and Stockholders' Equity	$ 14,758,597	9,011		$ 13,655,322	16,234	
Net Interest Income (FTE)		$ 109,213			$ 97,106	
Net Interest Spread (FTE) [4]			3.14 %			3.04 %
Net Interest Margin (FTE):						
Interest Income (FTE) / Average Earning Assets			3.49 %			3.72 %
Interest Expense / Average Earning Assets			0.27 %			0.53 %
Net Interest Margin (FTE) [5]			**3.22 %**			**3.19 %**

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

[2] Tax-exempt securities and loans are presented on a fully taxable equivalent basis, using a marginal tax rate of 21 percent for 2021 and 2020. These totals equal $4,949 and $4,088 for the three months ended June 30, 2021 and 2020, respectively.

[3] Non-accruing loans have been included in the average balances.

[4] Net Interest Spread (FTE) is interest income expressed as a percentage of average earning assets minus interest expense expressed as a percentage of average interest-bearing liabilities.

[5] Net Interest Margin (FTE) is interest income expressed as a percentage of average earning assets minus interest expense expressed as a percentage of average earning assets.

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(Dollars in Thousands)	Six Months Ended					
	June 30, 2021			June 30, 2020		
	Average Balance	Interest Income / Expense	Average Rate	Average Balance	Interest Income / Expense	Average Rate
Assets:						
Interest-bearing deposits	$ 493,791	$ 243	0.10 %	$ 269,174	$ 709	0.53 %
Federal Home Loan Bank stock	28,736	266	1.85	28,736	580	4.04
Investment Securities: [1]						
Taxable	1,613,847	14,135	1.75	1,325,313	13,778	2.08
Tax-Exempt [2]	1,896,643	32,223	3.40	1,263,122	24,499	3.88
Total Investment Securities	3,510,490	46,358	2.64	2,588,435	38,277	2.96
Loans held for sale	20,572	393	3.82	14,924	324	4.34
Loans: [3]						
Commercial	6,915,234	140,060	4.05	6,562,673	146,415	4.46
Real Estate Mortgage	943,830	18,774	3.98	878,956	20,524	4.67
Installment	666,870	12,880	3.86	741,889	16,701	4.50
Tax-Exempt [2]	713,094	13,777	3.86	655,149	13,511	4.12
Total Loans	9,259,600	185,884	4.01	8,853,591	197,475	4.46
Total Earning Assets	13,292,617	232,751	3.51 %	11,739,936	237,041	4.04 %
Net unrealized gain on securities available for sale	49,922			52,732		
Allowance for loan losses	(202,693)			(94,009)		
Cash and cash equivalents	168,647			231,624		
Premises and equipment	109,170			113,670		
Other assets	1,085,424			1,070,327		
Total Assets	$ 14,503,087			$ 13,114,280		
Liabilities:						
Interest-bearing deposits:						
Interest-bearing deposits	$ 4,681,439	$ 7,269	0.31 %	$ 3,770,530	$ 12,461	0.66 %
Money market deposits	2,212,425	1,631	0.15	1,604,474	5,479	0.68
Savings deposits	1,700,601	938	0.11	1,473,183	2,424	0.33
Certificates and other time deposits	835,722	2,185	0.52	1,582,322	14,091	1.78
Total Interest-bearing Deposits	9,430,187	12,023	0.25	8,430,509	34,455	0.82
Borrowings	659,826	6,376	1.93	828,721	7,709	1.86
Total Interest-bearing Liabilities	10,090,013	18,399	0.36	9,259,230	42,164	0.91
Noninterest-bearing deposits	2,417,888			1,907,582		
Other liabilities	151,936			141,505		
Total Liabilities	12,659,837			11,308,317		
Stockholders' Equity	1,843,250			1,805,963		
Total Liabilities and Stockholders' Equity	$ 14,503,087	18,399		$ 13,114,280	42,164	
Net Interest Income (FTE)		$ 214,352			$ 194,877	
Net Interest Spread (FTE) [4]			3.15 %			3.13 %
Net Interest Margin (FTE):						
Interest Income (FTE) / Average Earning Assets			3.51 %			4.04 %
Interest Expense / Average Earning Assets			0.28 %			0.72 %
Net Interest Margin (FTE) [5]			**3.23 %**			**3.32 %**

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

[2] Tax-exempt securities and loans are presented on a fully taxable equivalent basis, using a marginal tax rate of 21 percent for 2021 and 2020. These totals equal $9,660 and $7,982 for the six months ended June 30, 2021 and 2020, respectively.

[3] Non-accruing loans have been included in the average balances.

[4] Net Interest Spread (FTE) is interest income expressed as a percentage of average earning assets minus interest expense expressed as a percentage of average interest-bearing liabilities.

[5] Net Interest Margin (FTE) is interest income expressed as a percentage of average earning assets minus interest expense expressed as a percentage of average earning assets.

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NON-INTEREST INCOME

Non-interest income totaled $30.9 million for the quarter ended June 30, 2021, a $4.4 million, or 16.6 percent increase from the second quarter of 2020. Net gains and fees on sales of loans totaled $8.3 million during the quarter, a $4.7 million increase over the same period last year. Strong organic activity was enhanced by a $76.1 million portfolio mortgage loan sale that contributed a gain of $2.9 million during the quarter. Additionally, fiduciary and wealth management fees increased $1.9 million and service charges on deposit accounts increased $1.3 million when compared to the same period in 2020.

These increases were partially reduced by the impact on card payment fees of the Durbin Amendment adoption on July 1, 2020, which drove a $1.9 million decrease in fees in the comparable period. Finally, net realized gains on the sales of available for sale securities decreased $1.3 million in the second quarter of 2021 when compared to the same period in 2020.

During the first six months of 2021, non-interest income totaled $55.0 million, a $1.3 million, or 2.3 percent decrease when compared to the same period in 2020. The largest decrease was in net realized gains on the sales of available for sale securities, which declined by $4.1 during the comparable period. Additionally, the Durbin Amendment adoption resulted in a decrease in card payment fees of $3.5 million and the interest rate environment resulted in derivative hedge fees being $1.7 million lower in the first six months of 2021 when compared to the same period in 2020.

These decreases were partially offset by an increases in net gains and fees on sales of loans and fiduciary and wealth management fees of $5.3 million and $2.3 million, respectively, when compared to the same period in 2020.

NON-INTEREST EXPENSE

Non-interest expense totaled $69.3 million for the second quarter of 2021, a $9.3 million, or 15.5 percent increase from the second quarter of 2020. Non-interest expenses in the second quarter of 2020 were unusually low and reflected a $2.3 million deferral of salary expense related to PPP loan originations, a $1.1 million reduction in bonus accruals and a $1.6 million decrease in processing fees related to the termination of a debit card rewards program. In addition to the unusually low expenses noted in 2020, salary and incentive expenses increased in the second quarter of 2021 based upon current year financial results.

During the first six months of 2021, non-interest expense totaled $135.4 million, a $9.2 million, or 7.3 percent increase when compared to the same period in 2020. The largest contributing factor to the current year increase is the unusually low second quarter of 2020 expenses noted above. Salaries and employee benefits increased by $6.3 million in the first six months of 2021 when compared to the same period in 2020. In addition to the $3.4 million noted above from lower 2020 expenses, the remaining increase of $2.9 million was primarily due to higher salary and incentive expenses in the first six months of 2021 when compared to the same period in 2020.

INCOME TAXES

Income tax expense for the second quarter of 2021 was $10,294,000 on pre-tax net income of $65,853,000. For the same period in 2020, income tax expense was $4,623,000 on pre-tax net income of $37,615,000. The effective income tax rates for the second quarter of 2021 and 2020 were 15.6 percent and 12.3 percent, respectively.

Income tax expense for the six months ended June 30, 2021 was $19,246,000 on pre-tax net income of $124,274,000. For the same period in 2020, income tax expense was $8,113,000 on pre-tax net income of $75,368,000. The effective income tax rates for the six months ended June 30, 2021 and 2020 were 15.5 percent and 10.8 percent, respectively.

The lower effective income tax rate for the comparative periods ended June 30, 2020 was driven by two factors. First, an abnormally high level of loan provision expense as a result of the economic impact of the COVID-19 pandemic reduced taxable income, and when coupled with an increase in tax-exempt income, the benefit of non-taxable income increased. Secondly, the CARES Act provided for the carryback of certain federal net operating losses to a prior period with a rate differential between the 2020 statutory rate of 21 percent and the rate in effect during the carryback year.

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

CAPITAL

Stockholders' Equity

The Corporation adopted the current expected credit losses ("CECL") model for calculating the allowance for credit losses on January 1, 2021. CECL replaces the previous "incurred loss" model for measuring credit losses, which encompassed allowances for current known and inherent losses within the portfolio, with an "expected loss" model for measuring credit losses, which encompasses allowances for losses expected to be incurred over the life of the portfolio. As of the adoption and day one measurement date of January 1, 2021, the Corporation recorded a one-time cumulative-effect adjustment to retained earnings, net of income taxes, of $68.0 million. See additional details of the Corporation's CECL adoption in NOTE 4. LOANS AND ALLOWANCE of the Notes to Consolidated Condensed Financial Statements of this Quarterly Report on Form 10-Q.

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Stock Repurchase Program
On September 3, 2019, the Board of Directors of the Corporation approved a stock repurchase program of up to 3 million shares of the Corporation's outstanding common stock; provided, however, that the total aggregate investment in shares repurchased under the program was not to exceed $75 million. On a share basis, the amount of common stock subject to the repurchase program represented approximately 5 percent of the Corporation's outstanding shares. During the first quarter of 2020, the Corporation repurchased 1,634,437 of its common shares for $55.9 million at an average price of $34.21, which resulted in the aggregate investment in share repurchases of $75.0 million, the maximum allowable under the plan. As such, the September 2019 program terminated upon its own terms following the repurchases.

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. The Corporation has not made any repurchases under the January 2021 program as of June 30, 2021.

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

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

Basel III was effective for the Corporation on January 1, 2015 and requires the Corporation and the Bank to maintain the minimum capital and
leverage ratios as defined in the regulation and as illustrated in the table below, which capital to risk-weighted asset ratios include a 2.5 percent capital conservation buffer. Under Basel III, in order to avoid limitations on capital distributions, including dividends, the Corporation must hold a 2.5 percent capital conservation buffer above the adequately capitalized CET1 to risk-weighted assets ratio (which buffer is reflected in the required ratios below). Under Basel III, the Corporation and Bank elected to opt-out of including accumulated other comprehensive income in regulatory capital. As of June 30, 2021, the Bank met all capital adequacy requirements to be considered well capitalized under the fully phased-in Basel III capital rules. There is no threshold for well capitalized status for bank holding companies.

As part of a March 27, 2020 joint statement of federal banking regulators, an interim final rule that allowed banking organizations to mitigate the effects of the CECL accounting standard on their regulatory capital was announced. Banking organizations could elect to mitigate the estimated cumulative regulatory capital effects of CECL for up to two years. This two-year delay was to be in addition to the three-year transition period that federal banking regulators had already made available. While the CAA provided for a further extension of the mandatory adoption of CECL to the earlier of the first day of the fiscal year that begins after the date on which the national emergency concerning COVID-19 terminates, or January 1, 2022, the federal banking regulators have 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.

The Corporation elected to delay implementation of ASU No. 2016-13 until January 1, 2021 and, as a result, will recognize the implementation effects of CECL on its regulatory capital over a three-year transition period. Beginning on January 1, 2021, the Corporation phased in 25 percent of the deferred capital impact of CECL, with an additional 25 percent to be phased in at the beginning of the following three years, resulting in the impact being fully phased in on January 1, 2024.

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The Corporation's and Bank's actual and required capital ratios as of June 30, 2021 and December 31, 2020 were as follows:

			Prompt Corrective Action Thresholds			
	Actual		Basel III Minimum Capital Required		Well Capitalized	
June 30, 2021	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total risk-based capital to risk-weighted assets						
First Merchants Corporation	$ 1,531,522	14.23 %	$ 1,129,766	10.50 %	N/A	N/A
First Merchants Bank	1,430,762	13.25	1,133,449	10.50	$ 1,079,475	10.00 %
Tier 1 capital to risk-weighted assets						
First Merchants Corporation	$ 1,330,832	12.37 %	$ 914,572	8.50 %	N/A	N/A
First Merchants Bank	1,294,639	11.99	917,554	8.50	$ 863,580	8.00 %
CET1 capital to risk-weighted assets						
First Merchants Corporation	$ 1,284,345	11.94 %	$ 753,177	7.00 %	N/A	N/A
First Merchants Bank	1,294,639	11.99	755,633	7.00	$ 701,659	6.50 %
Tier 1 capital to average assets						
First Merchants Corporation	$ 1,330,832	9.35 %	$ 569,254	4.00 %	N/A	N/A
First Merchants Bank	1,294,639	9.11	568,398	4.00	$ 710,497	5.00 %

			Prompt Corrective Action Thresholds			
	Actual		Basel III Minimum Capital Required		Well Capitalized	
December 31, 2020	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total risk-based capital to risk-weighted assets						
First Merchants Corporation	$ 1,475,551	14.36 %	$ 1,079,015	10.50 %	N/A	N/A
First Merchants Bank	1,412,805	13.70	1,082,430	10.50	$ 1,030,886	10.00 %
Tier 1 capital to risk weighted assets						
First Merchants Corporation	$ 1,282,070	12.48 %	$ 873,488	8.50 %	N/A	N/A
First Merchants Bank	1,283,922	12.45	876,253	8.50	$ 824,708	8.00 %
CET1 capital to risk-weighted assets						
First Merchants Corporation	$ 1,235,702	12.02 %	$ 719,343	7.00 %	N/A	N/A
First Merchants Bank	1,283,922	12.45	721,620	7.00	$ 670,076	6.50 %
Tier 1 capital to average assets						
First Merchants Corporation	$ 1,282,070	9.57 %	$ 536,123	4.00 %	N/A	N/A
First Merchants Bank	1,283,922	9.59	535,279	4.00	$ 669,098	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, clarifies 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 June 30, 2021, risk-weighted assets included $415.8 million of PPP loans at a zero risk weight. Additionally, in order to facilitate use of the PPPL Facility, the agencies have clarified that banking organizations, including the Corporation and the Bank, are allowed to neutralize the regulatory effects of PPP covered loans on the risk-based capital ratios, as well as PPP covered loans pledged under the PPPL Facility on the leverage capital ratios. At June 30, 2021 and December 31, 2020, the Corporation did not have an outstanding balance with the PPPL Facility; therefore there were no adjustments to the leverage ratio for PPP loans. Access to funds under the PPPL Facility terminated on July 30, 2021, at which time the Corporation also had no outstanding balance.

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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.

	June 30, 2021		December 31, 2020	
(Dollars in thousands, except per share amounts)	First Merchants Corporation	First Merchants Bank	First Merchants Corporation	First Merchants Bank
Total Risk-Based Capital				
Total Stockholders' Equity (GAAP)	$ 1,871,800	$ 1,884,207	$ 1,875,645	$ 1,926,269
Adjust for Accumulated Other Comprehensive (Income) Loss [1]	(60,080)	(62,659)	(74,836)	(77,687)
Less: Preferred Stock	(125)	(125)	(125)	(125)
Add: Qualifying Capital Securities	46,487	—	46,368	—
Less: Disallowed Goodwill and Intangible Assets	(566,412)	(565,965)	(564,982)	(564,535)
Add: Modified CECL Transition Amount	40,314	40,314	—	—
Less: Disallowed Deferred Tax Assets	(1,152)	(1,133)	—	—
Total Tier 1 Capital (Regulatory)	1,330,832	1,294,639	1,282,070	1,283,922
Qualifying Subordinated Debentures	65,000	—	65,000	—
Allowance for Loan Losses Includible in Tier 2 Capital	135,690	136,123	128,481	128,883
Total Risk-Based Capital (Regulatory)	$ 1,531,522	$ 1,430,762	$ 1,475,551	$ 1,412,805
Net Risk-Weighted Assets (Regulatory)	$ 10,759,672	$ 10,794,750	$ 10,276,333	$ 10,308,855
Average Assets (Regulatory)	$ 14,231,347	$ 14,209,945	$ 13,403,065	$ 13,381,969
Total Risk-Based Capital Ratio (Regulatory)	14.23 %	13.25 %	14.36 %	13.70 %
Tier 1 Capital to Risk-Weighted Assets	12.37 %	11.99 %	12.48 %	12.45 %
Tier 1 Capital to Average Assets	9.35 %	9.11 %	9.57 %	9.59 %
CET1 Capital Ratio				
Total Tier 1 Capital (Regulatory)	$ 1,330,832	$ 1,294,639	$ 1,282,070	$ 1,283,922
Less: Qualified Capital Securities	(46,487)	—	(46,368)	—
CET1 Capital (Regulatory)	$ 1,284,345	$ 1,294,639	$ 1,235,702	$ 1,283,922
Net Risk-Weighted Assets (Regulatory)	$ 10,759,672	$ 10,794,750	$ 10,276,333	$ 10,308,855
CET1 Capital Ratio (Regulatory)	11.94 %	11.99 %	12.02 %	12.45 %

[1] Includes net unrealized gains or losses on available for sale securities, net gains or losses on cash flow hedges, and amounts resulting from the application of the applicable accounting guidance for defined benefit and other postretirement plans.

Additionally, management believes the following tables are also meaningful when considering performance measures of the Corporation. Non-GAAP financial measures such as tangible common equity to tangible assets, return on average tangible capital and return on average tangible assets are important measures of the strength of the Corporation's capital and ability to generate earnings on tangible common equity invested by our shareholders. These non-GAAP measures provide useful supplemental information and may assist investors in analyzing the
Corporation's financial position without regard to the effects of intangible assets and preferred stock. Disclosure of these measures also allows analysts and banking regulators to assess our capital adequacy on these same bases.

Because these measures are not defined in GAAP or federal banking regulations, they are considered non-GAAP financial measures. Non-GAAP financial measures have inherent limitations, are not required to be uniformly applied, and are not audited. Although these non-GAAP financial measures are frequently used by investors to evaluate a company, they have limitations as analytical tools, and should not be considered in isolation, or as a substitute for analyses of results as reported under GAAP.

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The Corporation had a strong capital position as evidenced by the tangible common equity to tangible assets ratio of 9.04 percent at June 30, 2021, and 9.65 percent at December 31, 2020.

	Tangible Common Equity to Tangible Assets (non-GAAP)	
(Dollars in thousands, except per share amounts)	June 30, 2021	December 31, 2020
Total Stockholders' Equity (GAAP)	$ 1,871,800	$ 1,875,645
Less: Cumulative preferred stock (GAAP)	(125)	(125)
Less: Intangible assets (GAAP)	(573,786)	(572,893)
Tangible common equity (non-GAAP)	$ 1,297,889	$ 1,302,627
Total assets (GAAP)	$ 14,923,097	$ 14,067,210
Less: Intangible assets (GAAP)	(573,786)	(572,893)
Tangible assets (non-GAAP)	$ 14,349,311	$ 13,494,317
Stockholders' Equity to Assets (GAAP)	12.54 %	13.33 %
Tangible common equity to tangible assets (non-GAAP)	9.04 %	9.65 %
Tangible common equity (non-GAAP)	$ 1,297,889	$ 1,302,627
Plus: Tax Benefit of intangibles (non-GAAP)	5,432	5,989
Tangible common equity, net of tax (non-GAAP)	$ 1,303,321	$ 1,308,616
Common Stock outstanding	53,972	53,922
Book Value (GAAP)	$ 34.68	$ 34.78
Tangible book value - common (non-GAAP)	$ 24.15	$ 24.27

The following table details and reconciles tangible earnings per share, return on tangible capital and tangible assets to traditional GAAP measures for the three and six months ended June 30, 2021 and 2020.

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands, except per share amounts)	2021	2020	2021	2020
Average goodwill (GAAP)	$ 546,793	$ 543,919	$ 545,364	$ 543,919
Average core deposit intangible (GAAP)	27,921	32,876	28,172	33,606
Average deferred tax on CDI (GAAP)	(5,607)	(6,815)	(5,741)	(6,972)
Intangible adjustment (non-GAAP)	$ 569,107	$ 569,980	$ 567,795	$ 570,553
Average stockholders' equity (GAAP)	$ 1,846,037	$ 1,795,509	$ 1,843,250	$ 1,805,963
Average cumulative preferred stock (GAAP)	(125)	(125)	(125)	(125)
Intangible adjustment (non-GAAP)	(569,107)	(569,980)	(567,795)	(570,553)
Average tangible capital (non-GAAP)	$ 1,276,805	$ 1,225,404	$ 1,275,330	$ 1,235,285
Average assets (GAAP)	$ 14,758,597	$ 13,655,322	$ 14,503,087	$ 13,114,280
Intangible adjustment (non-GAAP)	(569,107)	(569,980)	(567,795)	(570,553)
Average tangible assets (non-GAAP)	$ 14,189,490	$ 13,085,342	$ 13,935,292	$ 12,543,727
Net income available to common stockholders (GAAP)	$ 55,559	$ 32,991	$ 105,028	$ 67,255
CDI amortization, net of tax (GAAP)	1,156	1,194	2,228	2,390
Tangible net income available to common stockholders (non-GAAP)	$ 56,715	$ 34,185	$ 107,256	$ 69,645
Per Share Data:				
Diluted net income available to common stockholders (GAAP)	$ 1.03	$ 0.61	$ 1.94	$ 1.24
Diluted tangible net income available to common stockholders (non-GAAP)	$ 1.05	$ 0.63	$ 1.98	$ 1.28
Ratios:				
Return on average GAAP capital (ROE)	12.04 %	7.35 %	11.40 %	7.45 %
Return on average tangible capital	17.77 %	11.16 %	16.82 %	11.28 %
Return on average assets (ROA)	1.51 %	0.97 %	1.45 %	1.03 %
Return on average tangible assets	1.60 %	1.04 %	1.54 %	1.11 %

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

LOAN QUALITY AND PROVISION FOR CREDIT LOSSES ON LOANS

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

Loan Quality

The quality of the loan portfolio and 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 June 30, 2021, non-performing loans totaled $58.2 million, a decrease of $6.5 million from December 31, 2020. Loans not accruing interest income totaled $57.6 million at June 30, 2021, a decrease of $3.9 million from December 31, 2020. The decrease in non-accrual loans was primarily attributed to partial charge-offs related to two loans, both of which are in the senior living sector with remaining balances, net of specific reserves, totaling $23.4 million.

Other real estate owned and repossessions, totaling $601,000 at June 30, 2021, decreased $339,000 from December 31, 2020. For other real estate owned, current appraisals are obtained to determine fair value as management continues to aggressively market these real estate assets.

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

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

(Dollars in Thousands)	June 30, 2021	December 31, 2020
Non-Performing Assets:		
Non-accrual loans	$ 57,556	$ 61,471
Renegotiated loans	629	3,240
Non-performing loans (NPL)	58,185	64,711
OREO and Repossessions	601	940
Non-performing assets (NPA)	58,786	65,651
Loans 90-days or more delinquent and still accruing	183	746
NPAs and loans 90-days or more delinquent	$ 58,969	$ 66,397

The non-accrual balances in the table above include troubled debt loan restructures totaling $1.4 million and $1.7 million as of June 30, 2021 and December 31, 2020, respectively.

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

(Dollars in Thousands)	June 30, 2021	December 31, 2020
Non-performing assets and loans 90-days or more delinquent:		
Commercial and industrial loans	$ 1,467	$ 2,923
Agricultural land, production and other loans to farmers	682	1,012
Real estate loans:		
Construction	313	435
Commercial real estate, non-owner occupied	45,533	47,548
Commercial real estate, owner occupied	2,154	3,040
Residential	6,536	9,034
Home equity	2,248	2,350
Individuals' loans for household and other personal expenditures	36	55
Non-performing assets and loans 90-days or more delinquent:	$ 58,969	$ 66,397

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On March 22, 2020, a statement was issued by the Bank's banking regulators and titled the "Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus" (the "Interagency Statement") that encourages financial institutions to work prudently with borrowers who are or may be unable to meet their contractual payment obligations due to the effects of COVID-19. Additionally, Section 4013 of the CARES Act further provides that a qualified loan modification is exempt by law from classification as a troubled debt restructure as defined by GAAP, from the period beginning March 1, 2020 until the earlier of December 31, 2020 or the date that is 60 days after the date on which the national emergency concerning the COVID-19 outbreak under the National Emergencies Act (50 U.S.C. 1601 et seq.) terminates. The Interagency Statement was subsequently revised on April 7, 2020 to clarify the interaction of the original guidance with Section 4013 of the CARES Act, as well as setting forth the banking regulators' views on consumer protection considerations. In accordance with such guidance, the Bank has offered short-term modifications made in response to COVID-19 to 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 are insignificant. The CAA, as described above, extended the expiration date for COVID-related loan modifications exempt from troubled debt restructuring classification until the earlier of January 1, 2022, or 60 days after the termination of the national emergency. The following table summarizes modifications in deferment for the periods indicated.

	June 30, 2021		December 31, 2020	
	Recorded Balance	Number of Loans	Recorded Balance	Number of Loans
Commercial and industrial loans	$ 16,716	6	18,143	14
Agricultural land, production and other loans to farmers	—	—	10,724	2
Real estate loans:				
Construction	—	—	21,131	5
Commercial real estate, non-owner occupied	22,239	6	65,139	10
Commercial real estate, owner occupied	138	1	2,428	6
Residential	1,047	10	1,733	20
Home equity	30	1	154	4
Individuals' loans for household and other personal expenditures	125	9	893	26
Total	$ 40,295	33	120,345 120,345	87

Of the loans still in deferment at June 30, 2021, $19.4 million, or 48 percent of the balance, which were included in commercial real estate, non-owner occupied, were in the hotel industry. Of the remaining loans, $15.0 million, or 37 percent of the balance, are related to three loans in the entertainment industry. Although the Corporation believes its underwriting and loan review procedures are appropriate for the various kinds of loans it makes, its results of operations and financial condition could be adversely affected in the event the quality of its loan portfolio declines. Deterioration in the economic environment including residential and commercial real estate values may result in increased levels of loan delinquencies and credit losses.

Provision and Allowance for Credit Losses on Loans

The Corporation adopted FASB Accounting Standards Update (ASU) No. 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("CECL") on January 1, 2021. CECL replaces the previous "incurred loss" model with an "expected loss" model of measuring credit losses, which encompasses allowances for losses expected to be incurred over the life of the portfolio. The new CECL model requires the measurement of all expected credit losses for financial assets measured at amortized cost based on historical experiences, current conditions and reasonable and supportable forecasts. CECL also requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses, as well as credit quality and underwriting standards of an organization's portfolio.

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

The Corporation's total loan balance decreased $107.3 million from December 31, 2020 to $9.1 billion at June 30, 2021. PPP loans accounted for $415.8 million of the total loan balance at June 30, 2021. At June 30, 2021, the allowance for credit losses totaled $199.8 million, which represents an increase of $69.1 million from December 31, 2020. The allowance increase was primarily due to the day one cumulative effect adjustment related to the adoption of CECL of $74.1 million, offset by net charge-offs during the six months ended June 30, 2021 of $4.9 million. As a percentage of loans, the allowance for credit losses was 2.19 percent at June 30, 2021 compared to 1.41 percent at December 31, 2020. The allowance for credit losses as a percentage of total loans less PPP loans was 2.29 percent as of June 30, 2021. As of June 30, 2021, $595.7 million of the Bank's PPP loans had been forgiven by the SBA. The Bank anticipates that the majority of its remaining PPP loans will also be forgiven by the SBA in accordance with the terms of the program.

There was no provision for credit losses for the three and six months ended June 30, 2021 compared to $21.9 million and $41.7 million, respectively, for the same period of 2020. The provision for the first two quarters of 2020 reflected an increase in the reserve related to the estimated impact of the emerging COVID-19 pandemic on the economy and on the credit quality of our loan portfolio. The Corporation adopted CECL effective January 1, 2021 and recorded a day one cumulative effect adjustment which increased the Allowance for Credit Losses for Loans to $204.7 million. Net charge-offs in 2021 lowered the allowance to $199.8 million as of June 30, 2021. The Corporation deems this estimate for loan portfolio credit exposure as appropriate, thus there was no provision expense in the first and second quarter of 2021.

Net charge-offs totaling $1.3 million and $4.9 million, respectively, were recognized for the three and six months ended June 30, 2021. Comparatively, net charge-offs totaled $230,000 and $812,000, respectively, for the same periods in 2020. For the three months ended June 30, 2021, there was one individual charge-off greater than $500,000 that totaled $515,000. For the six months ended June 30, 2021, there were three individual charge-offs greater than $500,000 that totaled $4.3 million. For the three and six months ended June 30, 2020, there were not any individual charge-offs or recoveries greater than $500,000. The distribution of the net charge-offs (recoveries) for the three and six months ended June 30, 2021 and 2020 are reflected in the following table.

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in Thousands)	2021	2020	2021	2020
Net charge-offs (Recoveries):				
Commercial and industrial loans	$ 120	$ 31	$ 604	$ 160
Agricultural land, production and other loans to farmers	23	(38)	24	5
Real estate loans:				
Construction	(1)	—	1	(37)
Commercial real estate, non-owner occupied	984	(80)	3,495	(61)
Commercial real estate, owner occupied	18	14	656	97
Residential	(71)	38	1	31
Home equity	208	175	43	320
Individuals' loans for household and other personal expenditures	26	90	104	297
Total net charge-offs	$ 1,307	$ 230	$ 4,928	$ 812

Management continually evaluates the commercial loan portfolio by including consideration of specific borrower cash flow analysis and estimated collateral values, types and amounts on non-performing loans, past and anticipated loan loss experience, changes in the composition of the loan portfolio, and the current condition and amount of loans outstanding. The determination of the provision for loan losses in any period is based on management's continuing review and evaluation of the loan portfolio, and its judgment as to the impact of current economic conditions on the portfolio.

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 $2.4 billion at June 30, 2021, an increase of $507.8 million, or 26.5 percent, from December 31, 2020. 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 $8.4 million at June 30, 2021. 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 June 30, 2021, total borrowings from the FHLB were $334.2 million The Bank has pledged certain mortgage loans and investments to the FHLB. The total available remaining borrowing capacity from the FHLB at June 30, 2021 was $762.8 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.

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

The required payments related to operating leases and borrowings at June 30, 2021 are as follows:

(Dollars in Thousands)	Remaining 2021	2022	2023	2024	2025	2026 and after	ASC 805 fair value adjustments at acquisition	Total
Operating leases	$ 1,890	$ 3,674	$ 3,270	$ 3,159	$ 2,906	$ 7,768	$ —	$ 22,667
Securities sold under repurchase agreements	146,904	—	—	—	—	—	—	146,904
Federal Home Loan Bank advances	48	75,097	115,097	10,097	25,097	108,807	—	334,243
Subordinated debentures and other borrowings	—	—	—	—	—	122,012	(3,514)	118,498
Total	$ 148,842	$ 78,771	$ 118,367	$ 13,256	$ 28,003	$ 238,587	$ (3,514)	$ 622,312

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

Summarized credit-related financial instruments at June 30, 2021 are as follows:

(Dollars in Thousands)	June 30, 2021
Amounts of commitments:	
Loan commitments to extend credit	$ 3,884,912
Standby and commercial letters of credit	32,505
	$ 3,917,417

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

INTEREST SENSITIVITY AND DISCLOSURE ABOUT MARKET RISK

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

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 June 30, 2021, remained adequate to meet the Corporation's primary goal of achieving optimum interest margins while avoiding undue interest rate risk.

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

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

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

The comparative rising 200 basis points and falling 100 basis points scenarios below, as of June 30, 2021 and December 31, 2020, assume further interest rate changes in addition to the base simulation discussed above. These changes are immediate and parallel changes to the base case scenario. In the current rate environment, many drivers are at or near historical lows due to the FOMC's rate reductions in March 2020 in response to COVID-19.

Results for the rising 200 basis points, and falling 100 basis points interest rate scenarios are listed below based upon the Corporation’s rate sensitive assets and liabilities at June 30, 2021 and December 31, 2020. The change from the base scenario represents cumulative net interest income over a twelve-month time horizon. Balance sheet assumptions used for the base scenario are the same for the rising and falling simulations.

	June 30, 2021	December 31, 2020
Rising 200 basis points from base case	2.9 %	5.9 %
Falling 100 basis points from base case	(0.2)%	0.7 %

EARNING ASSETS

The following table presents the earning asset mix as of June 30, 2021 and December 31, 2020. Earning assets increased by $940.8 million during the six months ended June 30, 2021.

Total investment securities increased $1.0 billion from December 31, 2020 as excess liquidity from deposit growth was used to invest in the bond portfolio. Additional details of the changes in the Corporation's investment securities portfolio are discussed within NOTE 3. INVESTMENT SECURITIES of the Notes to Consolidated Condensed Financial Statements of this Quarterly Report on Form 10-Q.

Loans and loans held for sale decreased $107.3 million from December 31, 2020. As of June 30, 2021, PPP loans, which are included in the commercial and industrial loans class, totaled $415.8 million, a decrease of $251.3 million from the December 31, 2020 balance of $667.1 million. Other loan classes that experienced the largest decreases from December 31, 2020 were residential real estate and agricultural land, production and other loans to farmers. The largest loan classes that experienced an increase from December 31, 2020 were public finance and other commercial loans and commercial real estate, non-owner occupied. Additional details of the changes in the Corporation's loan portfolio are discussed within NOTE 4. LOANS AND ALLOWANCE of the Notes to Consolidated Condensed Financial Statements of this Quarterly Report on Form 10-Q.

(Dollars in Thousands)	June 30, 2021	December 31, 2020
Interest-bearing deposits	$ 438,863	$ 392,305
Investment securities available for sale	2,426,900	1,919,119
Investment securities held to maturity, net of allowance for credit losses of $245,000 as of June 30, 2021	1,721,414	1,227,668
Loans held for sale	18,582	3,966
Loans	9,121,250	9,243,174
Federal Home Loan Bank stock	28,736	28,736
Total	$ 13,755,745	$ 12,814,968

OTHER

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

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

PART I: FINANCIAL INFORMATION
ITEM 4. CONTROLS AND PROCEDURES

ITEM 4. CONTROLS AND PROCEDURES

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

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

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

ITEM 1. LEGAL PROCEEDINGS

On June 24, 2021, the Bank was named in a putative class action lawsuit filed in a Circuit Court in Delaware County, Indiana challenging the Bank's checking account practices associated with its assessment of overdraft fees for certain debit card transactions. The relief sought by the plaintiff includes restitution, other monetary damages, and injunctive and declaratory relief. The plaintiff also seeks to have the case certified by the Court as a class action on behalf of all persons who are checking account holders at the Bank and who were assessed overdraft fees on certain debit card transactions. The Corporation believes the plaintiff's claims are unfounded and intends to defend against them. At this stage of the litigation, it is not possible for the Corporation's management to determine the probability of a material adverse outcome or reasonably estimate the amount of any potential loss.

There are no other pending legal proceedings, other than litigation incidental to the ordinary business of the Corporation or its subsidiaries, of a material nature to which the Corporation or its subsidiaries is a party or of which any of their properties 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 1A. RISK FACTORS

There have been no material changes to the risk factors previously disclosed in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2020.

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

a. None

b. None

c. Issuer Purchases of Equity Securities

The following table presents information relating to our purchases of equity securities during the three months ended June 30, 2021.

Period	Total Number of Shares Purchased	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 [1]
April, 2021	—	$ —	—	3,333,000
May, 2021	—	$ —	—	3,333,000
June, 2021	—	$ —	—	3,333,000

[1] 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.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable

ITEM 5. OTHER INFORMATION

a. None

b. None

PART II: OTHER INFORMATION
ITEM 6. EXHIBITS

ITEM 6. EXHIBITS

Exhibit No:	Description of Exhibits:
3.1	First Merchants Corporation Articles of Incorporation, as amended (Incorporated by reference to registrant's Form 8-K filed on May 2, 2017) (SEC No. 000-17071)
3.2	Bylaws of First Merchants Corporation dated August 11, 2016 (Incorporated by reference to registrant's Form 10-K filed on March 1, 2017) (SEC No. 000-17071)
4.1	First Merchants Corporation Amended and Restated Declaration of Trust of First Merchants Capital Trust II dated as of July 2, 2007 (Incorporated by reference to registrant's Form 8-K filed on July 3, 2007) (SEC No. 000-17071)
4.2	Indenture dated as of July 2, 2007 (Incorporated by reference to registrant's Form 8-K filed on July 3, 2007) (SEC No. 000-17071)
4.3	Guarantee Agreement dated as of July 2, 2007 (Incorporated by reference to registrant's Form 8-K filed on July 3, 2007) (SEC No. 000-17071)
4.4	Form of Capital Securities Certification of First Merchants Capital Trust II (Incorporated by reference to registrant's Form 8-K filed on July 3, 2007) (SEC No. 000-17071)
4.5	First Merchants Corporation Dividend Reinvestment and Stock Purchase Plan (Incorporated by reference to registrant's 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.
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes - Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes - Oxley Act of 2002 (1)
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes - Oxley Act of 2002 (1)
32	Certifications Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (2)
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 (1)
101.SCH	Inline XBRL Taxonomy Extension Schema Document (1)
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document (1)
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document (1)
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document (1)
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document (1)
104	Cover Page Interactive Data File (formatted as Inline XBRL and included in Exhibit 101)

(1) Filed herewith.
(2) Furnished herewith.

SIGNATURES

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

	First Merchants Corporation (Registrant)
August 9, 2021	by /s/ Mark K. Hardwick Mark K. Hardwick Chief Executive Officer (Principal Executive Officer)
August 9, 2021	by /s/ Michele M. Kawiecki Michele M. Kawiecki Executive Vice President, Chief Financial Officer (Principal Financial and Accounting Officer)

EXHIBIT-31.1

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

CERTIFICATION

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

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

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

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

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

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

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

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

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

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

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

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

August 9, 2021

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

EXHIBIT-31.2

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

CERTIFICATION

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

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

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

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

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

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

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

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

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

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

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

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

August 9, 2021

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

EXHIBIT-32

CERTIFICATIONS PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of First Merchants Corporation (the "Corporation") on Form 10-Q for the period ending June 30, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael C. Rechin, President and Chief Executive Officer of the Corporation, do hereby certify, in accordance with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o (d)); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

August 9, 2021

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

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

In connection with the Quarterly Report of First Merchants Corporation (the "Corporation") on Form 10-Q for the period ending June 30, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Mark K. Hardwick, Executive Vice President, Chief Financial Officer and Chief Operating Officer of the Corporation, do hereby certify, in accordance with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o (d)); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

August 9, 2021

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.