

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2024

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 001-36434

FIRST MID BANCSHARES, INC.

(Exact name of Registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

37-1103704

(I.R.S. employer identification no.)

1421 Charleston Avenue

Mattoon, Illinois

(Address of principal executive offices)

61938

(Zip code)

(217) 234-7454

(Registrant's telephone number, including area code)

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

Title of each class

Common Stock

Trading Symbol(s)

FMBH

Name of each exchange on which registered

NASDAQ Global 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 (Section 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, 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. (Check one):

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 Act). Yes No

As of August 7, 2024, 23,905,252 common shares, \$4.00 par value, were outstanding.

PART I

ITEM 1. FINANCIAL STATEMENTS

First Mid Bancshares, Inc.
Condensed Consolidated Balance Sheets
(Unaudited)

(In thousands, except share data)	June 30, 2024	December 31, 2023
Assets		
Cash and due from banks:		
Non-interest bearing	\$ 104,453	\$ 122,871
Interest bearing	131,001	11,211
Federal funds sold	26	8,982
Cash and cash equivalents	235,480	143,064
Certificates of deposit	3,745	1,470
Investment securities:		
Available-for-sale, at fair value (amortized cost of \$1,311,109 and \$1,363,721 at June 30, 2024 and December 31, 2023, respectively)	1,110,650	1,171,572
Held-to-maturity, at amortized cost (estimated fair value of \$2,277 and \$2,286 at June 30, 2024 and December 31, 2023, respectively)	2,277	2,286
Equity securities, at fair value	4,258	4,074
Loans held for sale	7,764	4,980
Loans	5,552,853	5,575,585
Less allowance for credit losses	(68,312)	(68,675)
Net loans	5,484,541	5,506,910
Interest receivable	37,326	35,082
Other real estate owned	1,454	1,163
Premises and equipment, net	101,583	101,396
Goodwill, net	196,461	196,461
Intangible assets, net	60,916	67,770
Bank owned life insurance	168,439	166,125
Right of use lease assets	14,981	14,306
Deferred tax asset, net	67,814	70,067
Other assets	83,371	100,068
Total assets	\$ 7,581,060	\$ 7,586,794
Liabilities and stockholders' equity		
Deposits:		
Non-interest bearing	\$ 1,393,336	\$ 1,398,234
Interest bearing	4,722,443	4,725,425
Total deposits	6,115,779	6,123,659
Securities sold under agreements to repurchase	205,955	213,721
Interest payable	5,415	5,437
FHLB borrowings	263,735	263,787
Junior subordinated debentures, net	24,169	24,058
Subordinated debt, net	103,029	106,755
Lease liabilities	15,286	14,615
Other liabilities	34,047	41,558
Total liabilities	6,767,415	6,793,590
Stockholders' equity:		
Common stock (\$4 par value; authorized 30,000,000 shares; issued 24,548,439 and 24,479,708 shares in 2024 and 2023, respectively; outstanding 23,895,868 and 23,827,137 shares in 2024 and 2023, respectively)	100,194	99,919
Additional paid-in capital	512,181	509,314
Retained earnings	367,967	338,662
Deferred compensation	1,382	2,629
Accumulated other comprehensive loss	(146,998)	(136,427)
Treasury stock, at cost (652,571 shares in 2024 and 652,571 shares in 2023)	(21,081)	(20,893)
Total stockholders' equity	813,645	793,204
Total liabilities and stockholders' equity	\$ 7,581,060	\$ 7,586,794

See accompanying notes to unaudited condensed consolidated financial statements.

First Mid Bancshares, Inc.

Condensed Consolidated Statements of Income (unaudited)

(In thousands, except per share data)

(In thousands, except per share data)	Three months ended June 30,			Six months ended June 30,		
	2024	2023	2024	2023	2024	2023
Interest income:						
Interest and fees on loans	\$ 79,560	\$ 58,368	\$ 157,383	\$ 114,604		
Interest on investment securities	7,405	7,193	14,810	14,320		
Interest on certificates of deposit investments	43	15	63	29		
Interest on federal funds sold	8	98	25	183		
Interest on deposits with other financial institutions	1,667	456	4,074	665		
Total interest income	88,683	66,130	176,355	129,801		
Interest expense:						
Interest on deposits	26,338	16,580	52,434	29,347		
Interest on securities sold under agreements to repurchase	1,615	1,723	3,671	3,186		
Interest on FHLB borrowings	2,248	4,084	4,562	8,958		
Interest on other borrowings	—	—	—	9		
Interest on junior subordinated debentures	537	390	1,079	769		
Interest on subordinated debentures	1,180	986	2,374	1,974		
Total interest expense	31,918	23,763	64,120	44,243		
Net interest income	56,765	42,367	112,235	85,558		
Provision for credit losses	1,083	458	726	(359)		
Net interest income after provision for credit losses	55,682	41,909	111,509	85,917		
Other income:						
Wealth management revenues	5,405	5,341	10,727	10,855		
Insurance commissions	6,531	5,737	15,744	14,217		
Service charges	3,227	2,386	6,183	4,589		
Securities losses, net	(156)	(6)	(156)	(52)		
Mortgage banking revenue, net	1,038	332	1,744	482		
ATM/debit card revenue	4,281	3,265	8,336	6,348		
Bank owned life insurance	1,192	1,189	2,313	2,830		
Other	904	1,242	2,009	2,696		
Total other income	22,422	19,486	46,900	41,965		
Other expense:						
Salaries and employee benefits	30,164	23,544	60,612	49,615		
Net occupancy and equipment expense	7,507	6,035	15,067	12,040		
Net other real estate owned expense	85	27	64	160		
FDIC insurance	902	1,076	1,771	1,539		
Amortization of intangible assets	3,340	1,477	6,837	2,999		
Stationery and supplies	370	315	761	607		
Legal and professional	2,536	1,780	4,985	3,470		
ATM/debit card	1,281	1,016	2,472	2,239		
Marketing and donations	814	908	1,676	1,562		
Other	4,392	3,864	10,508	7,388		
Total other expense	51,391	40,042	104,753	81,619		
Income before income taxes		26,713	21,353	53,656	46,263	
Income taxes		6,968	4,786	13,408	10,516	
Net income	<u>\$ 19,745</u>	<u>\$ 16,567</u>	<u>\$ 40,248</u>	<u>\$ 35,747</u>		
Per share data:						
Basic net income per common share	\$ 0.83	\$ 0.81	\$ 1.69	\$ 1.74		
Diluted net income per common share	0.82	0.80	1.68	1.74		
Cash dividends declared per common share	0.23	0.23	0.46	0.46		

See accompanying notes to unaudited condensed consolidated financial statements.

First Mid Bancshares, Inc.
Condensed Consolidated Statements of Comprehensive Income (unaudited)

(In thousands)	Three months ended June 30,		Six months ended June 30,	
	2024	2023	2024	2023
Net income	\$ 19,745	\$ 16,567	\$ 40,248	\$ 35,747
Other comprehensive income (loss)				
Unrealized gains (losses) on available-for-sale securities, net of tax benefit (expense) of (\$208) and (\$5,583) for three months ended June 30, 2024 and 2023, respectively and \$4,017 and \$39 for the six months ended June 30, 2024 and 2023, respectively	556	(13,670)	(10,684)	(97)
Less: reclassification adjustment for realized gains (losses) included in net income, net of tax benefit (expense) of \$43 and \$1 for three months ended June 30, 2024 and 2023, respectively and \$43 and \$14 for the six months ended June 30, 2024 and 2023, respectively	(113)	(5)	(113)	(38)
Other comprehensive income (loss), net of taxes	669	(13,665)	(10,571)	(59)
Comprehensive income	<u>\$ 20,414</u>	<u>\$ 2,902</u>	<u>\$ 29,677</u>	<u>\$ 35,688</u>

See accompanying notes to unaudited condensed consolidated financial statements.

First Mid Bancshares, Inc.

Condensed Consolidated Statements of Changes in Stockholders' Equity (unaudited)

For the three months ended June 30, 2024 and 2023

(In thousands)	Common Stock	Additional Paid-In Capital	Retained Earnings	Deferred Compensation	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
March 31, 2024	\$ 100,166	\$ 511,785	\$ 353,694	\$ 832	\$ (147,667)	\$ (20,858)	\$ 797,952
Net income	—	—	19,745	—	—	—	19,745
Other comprehensive income, net tax	—	—	—	—	669	—	669
Cash dividends on common stock (.230/share)	—	—	(5,472)	—	—	—	(5,472)
Forfeiture of 384 restricted shares pursuant to the 2017 stock incentive plan	(2)	(11)	—	—	—	—	(13)
Issuance of 7,323 common shares pursuant to the employee stock purchase plan	30	174	—	—	—	—	204
Grant of restricted units pursuant to 2017 stock incentive plan	—	174	—	—	—	—	174
Deferred compensation	—	—	—	62	—	(223)	(161)
Vested restricted shares/units compensation expense	—	59	—	488	—	—	547
June 30, 2024	\$ 100,194	\$ 512,181	\$ 367,967	\$ 1,382	\$ (146,998)	\$ (21,081)	\$ 813,645
March 31, 2023	\$ 86,636	\$ 428,283	\$ 303,768	\$ 963	\$ (137,901)	\$ (19,884)	\$ 661,865
Net income	—	—	16,567	—	—	—	16,567
Other comprehensive loss, net tax	—	—	—	—	(13,665)	—	(13,665)
Cash dividends on common stock (.230/share)	—	—	(4,699)	—	—	—	(4,699)
Forfeiture of 700 restricted shares pursuant to the 2017 stock incentive plan	(3)	(19)	—	—	—	—	(22)
Issuance of 9,175 common shares pursuant to the employee stock purchase plan	37	176	—	—	—	—	213
Deferred compensation	—	—	—	166	—	(175)	(9)
Vested restricted shares/units compensation expense	—	64	—	373	—	—	437
June 30, 2023	\$ 86,670	\$ 428,504	\$ 315,636	\$ 1,502	\$ (151,566)	\$ (20,059)	\$ 660,687

First Mid Bancshares, Inc.

Condensed Consolidated Statements of Changes in Stockholders' Equity (unaudited)

For the six months ended June 30, 2024

(In thousands)	Common Stock	Additional Paid-In-Capital	Retained Earnings	Deferred Compensation	Accumulated Other Comprehensive Loss	Treasury Stock	Total
December 31, 2023	\$ 99,919	\$ 509,314	\$ 338,662	\$ 2,629	\$ (136,427)	\$ (20,893)	\$ 793,204
Net income	—	—	40,248	—	—	—	40,248
Other comprehensive loss, net tax	—	—	—	—	(10,571)	—	(10,571)
Cash dividends on common stock (0.460/share)	—	—	(10,943)	—	—	—	(10,943)
Issuance of 47,196 restricted shares pursuant to 2017 stock incentive plan, net of forfeitures	189	1,390	—	—	—	—	1,579
Issuance of 5,600 common shares pursuant to 2017 stock incentive plan	22	166	—	—	—	—	188
Issuance of 15,935 common shares pursuant to the employee stock purchase plan	64	334	—	—	—	—	398
Deferred compensation	—	—	—	(2,226)	—	(188)	(2,414)
Grant of restricted units pursuant to 2017 stock incentive plan	—	1,485	—	—	—	—	1,485
Release of restricted units pursuant to 2017 stock incentive plan	—	(617)	—	—	—	—	(617)
Vested restricted shares/units compensation expense	—	109	—	979	—	—	1,088
June 30, 2024	\$ 100,194	\$ 512,181	\$ 367,967	\$ 1,382	\$ (146,998)	\$ (21,081)	\$ 813,645

First Mid Bancshares, Inc.

Condensed Consolidated Statements of Changes in Stockholders' Equity (unaudited)

For the six months ended June 30, 2023

(In thousands)	Common Stock	Additional Paid-In-Capital	Retained Earnings	Deferred Compensation	Accumulated Other Comprehensive Loss	Treasury Stock	Total
December 31, 2022	\$ 86,366	\$ 427,001	\$ 289,284	\$ 2,064	\$ (151,507)	\$ (20,053)	\$ 633,155
Net income	—	—	35,747	—	—	—	35,747
Other comprehensive loss, net tax	—	—	—	—	(59)	—	(59)
Cash dividends on common stock (.460/share)	—	—	(9,395)	—	—	—	(9,395)
Issuance of 54,498 restricted shares pursuant to 2017 stock incentive plan, net of forfeitures	218	1,404	—	—	—	—	1,622
Issuance of 4,350 common shares pursuant to 2017 stock incentive plan	17	103	—	—	—	—	120
Issuance of 17,138 common shares pursuant to the employee stock purchase plan	69	360	—	—	—	—	429
Purchase of 170 shares of treasury stock	—	—	—	—	—	(5)	(5)
Deferred compensation	—	—	—	(1,189)	—	(1)	(1,190)
Grant of restricted units pursuant to 2017 stock incentive plan	—	1,048	—	—	—	—	1,048
Release of restricted units pursuant to 2017 stock incentive plan	—	(1,529)	—	—	—	—	(1,529)
Vested restricted shares/units compensation expense	—	117	—	627	—	—	744
June 30, 2023	\$ 86,670	\$ 428,504	\$ 315,636	\$ 1,502	\$ (151,566)	\$ (20,059)	\$ 660,687

See accompanying notes to unaudited condensed consolidated financial statements.

First Mid Bancshares, Inc.

Condensed Consolidated Statements of Cash Flows (unaudited)

(In thousands)	Six months ended June 30,	
	2024	2023
Cash flows from operating activities:		
Net income	\$ 40,248	\$ 35,747
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	726	(359)
Depreciation, amortization and accretion, net	10,348	6,868
Change in cash surrender value of bank owned life insurance	(2,313)	(1,854)
Change in bank owned life insurance	—	(976)
Stock-based compensation expense	1,185	744
Operating lease payments	(1,672)	(1,577)
Loss on investment securities, net	156	52
(Gain) loss on sales and write downs of other real estate owned, net	(86)	70
Gain on sale of loans held for sale, net	(1,179)	(518)
Gain on repayment of subordinated debentures	(100)	—
Increase in accrued interest receivable	(2,244)	(623)
Increase in accrued interest payable	62	991
Origination of loans held for sale	(45,536)	(28,189)
Proceeds from sale of loans held for sale	42,699	26,332
Decrease in other assets	18,037	5,787
Decrease in other liabilities	(7,311)	(4,337)
Net cash provided by operating activities	53,020	38,158
Cash flows from investing activities:		
Purchases of certificates of deposit investments	(2,275)	(245)
Proceeds from sales of securities available-for-sale	15,875	6,477
Proceeds from maturities of securities available-for-sale	44,651	47,719
Purchases of securities available-for-sale	(8,972)	(1,063)
Purchase of securities held-to-maturity	(21)	(17)
Net decrease in loans	22,419	14,508
Purchases of premises and equipment	(2,595)	(1,908)
Proceeds from sales of other real property owned	182	767
Proceeds from bank owned life insurance death benefit	—	976
Net cash used in acquisition	—	(10,041)
Net cash provided by investing activities	69,264	57,173
Cash flows from financing activities:		
Net decrease in deposits	(7,880)	(37,416)
Decrease in repurchase agreements	(7,766)	(12,244)
Proceeds from FHLB advances	75,000	160,000
Repayment of FHLB advances	(75,000)	(175,000)
Repayment of subordinated debenture	(3,865)	—
Proceeds from issuance of common stock	586	549
Purchase of treasury stock	—	(5)
Dividends paid on common stock	(10,943)	(9,395)
Net cash used in financing activities	(29,868)	(73,511)
Increase in cash and cash equivalents	92,416	21,820
Cash and cash equivalents at beginning of period	143,064	152,433
Cash and cash equivalents at end of period	\$ 235,480	\$ 174,253

See accompanying notes to unaudited condensed consolidated financial statements.

First Mid Bancshares, Inc.
Condensed Consolidated Statements of Cash Flows (unaudited)

	Six months ended June 30,	
	2024	2023
(In thousands)		
Supplemental disclosures of cash flow information		
Cash paid during the period for:		
Interest	\$ 64,142	\$ 43,245
Income taxes, net of refunds	(657)	9,705
Supplemental disclosures of noncash investing and financing activities		
Loans transferred to other real estate	\$ 456	\$ 648
Initial recognition of right-of-use assets	2,109	663
Initial recognition of lease liabilities	2,109	663

Notes to Condensed Consolidated Financial Statements (unaudited)

Note 1 -- Basis of Accounting and Consolidation

The unaudited condensed consolidated financial statements include the accounts of First Mid Bancshares, Inc. ("Company") and its wholly owned subsidiaries: First Mid Bank & Trust, N.A. ("First Mid Bank"), First Mid Wealth Management Company, First Mid Insurance Group, Inc. ("First Mid Insurance"), and First Mid Captive, Inc. All significant intercompany balances and transactions have been eliminated in consolidation. The financial information reflects all adjustments which, in the opinion of management, are necessary for a fair presentation of the results of the interim periods ended June 30, 2024 and 2023, and all such adjustments are of a normal recurring nature. Certain amounts in the prior year's consolidated financial statements may have been reclassified to conform to the June 30, 2024 presentation and there was no impact on net income or stockholders' equity. The results of the interim period ended June 30, 2024 are not necessarily indicative of the results expected for the year ending December 31, 2024. The Company operates as a one-segment entity for financial reporting purposes. The 2023 year-end consolidated balance sheet data was derived from audited financial statements but does not include all disclosures required by accounting principles generally accepted in the United States of America.

The unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X and do not include all the information required by U.S. generally accepted accounting principles ("GAAP") for complete financial statements and related footnote disclosures although the Company believes that the disclosures made are adequate to make the information not misleading. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's 2023 Annual Report on Form 10-K.

Blackhawk Bancorp, Inc.

On March 20, 2023, First Mid Bancshares, Inc. ("First Mid") and Eagle Sub LLC, a newly formed Wisconsin limited liability company and wholly-owned subsidiary of First Mid ("Merger Sub"), entered into an Agreement and Plan of Merger (the "Merger Agreement") with Blackhawk Bancorp, Inc., a Wisconsin corporation ("Blackhawk"), pursuant to which, among other things, First Mid agreed to acquire 100% of the issued and outstanding shares of Blackhawk pursuant to a business combination whereby Blackhawk will merge with and into Merger Sub, whereupon the separate corporate existence of Blackhawk will cease and Merger Sub will continue as the surviving company and a wholly-owned subsidiary of First Mid (the "Merger").

Subject to the terms and conditions of the Merger Agreement, at the effective time of the Merger, each share of common stock, par value \$0.01 per share, of Blackhawk issued and outstanding immediately prior to the effective time of the Merger (other than shares held in treasury by Blackhawk and dissenting shares) were converted into and became the right to receive 1.15 shares of common stock, par value \$4.00 per share, of First Mid and cash in lieu of fractional shares, less any applicable taxes required to be withheld, and subject to certain potential adjustments. On an aggregate basis, the total consideration payable by First Mid at the closing of the Merger to Blackhawk's shareholders and equity award holders was 3,290,222 shares of First Mid common stock valued at \$93.51 million and \$1,928 of cash in lieu of fractional shares.

The Blackhawk Merger closed August 15, 2023 and Blackhawk Bank was merged into First Mid Bank on December 1, 2023.

Website

The Company maintains a website at www.firstmid.com. All periodic and current reports of the Company and amendments to these reports filed with the Securities and Exchange Commission ("SEC") can be accessed, free of charge, through this website as soon as reasonably practicable after these materials are filed with the SEC.

General Litigation

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

Stock Plans

At the Annual Meeting of Stockholders held April 26, 2017, the stockholders approved the First Mid-Illinois Bancshares, Inc. 2017 Stock Incentive Plan ("SI Plan"). The SI Plan was implemented to succeed the Company's 2007 Stock Incentive Plan, which had a ten-year term. The SI Plan is intended to provide a means whereby directors, employees, consultants and advisors of the Company and its subsidiaries may sustain a sense of proprietorship and personal involvement in the continued development and financial success of the Company and its subsidiaries, thereby advancing the interests of the Company and its stockholders. Accordingly, directors and selected employees, consultants and advisors may be provided the opportunity to acquire shares of common stock of the Company on the terms and conditions established in the SI Plan.

Following the stockholders' approval at the 2021 annual meeting of the Company, a maximum of 399,983 shares of common stock may be issued under the SI Plan. There have been no stock options awarded under any Company plan since 2008. The Company has awarded 53,766 and 59,950 shares of restricted stock during the six months ended June 30, 2024 and 2023, respectively, and 39,150 and 37,900 restricted stock units during the six months ended June 30, 2024 and 2023, respectively.

Employee Stock Purchase Plan

At the Annual Meeting of Stockholders held April 25, 2018, the stockholders approved the First Mid-Illinois Bancshares, Inc. Employee Stock Purchase Plan ("ESPP"). The ESPP is intended to promote the interests of the Company by providing eligible employees with the opportunity to purchase shares of common stock of the Company at a 15% discount through payroll deductions. The ESPP is also intended to qualify as an employee stock purchase plan under Section 423 of the Internal Revenue Code.

A maximum of 600,000 shares of common stock may be issued under the ESPP. During the six months ended June 30, 2024 and 2023, 15,935 shares and 17,138 shares, respectively, were issued pursuant to the ESPP.

Captive Insurance Company

First Mid Captive, Inc. (the "Captive"), a wholly owned subsidiary of the Company which was formed and began operations in December 2019, is a Nevada-based captive insurance company. The Captive insures against certain risks unique to operations of the Company and its subsidiaries for which insurance may not be currently available or economically feasible in today's insurance marketplace. The Captive pools resources with several other similar insurance company subsidiaries of financial institutions to spread a limited amount of risk among themselves. The Captive is subject to regulations of the State of Nevada and undergoes periodic examinations by the Nevada Division of Insurance. It has elected to be taxed under Section 831(b) of the Internal Revenue Code. Pursuant to Section 831(b), if gross premiums do not exceed \$2,800,000, then the Captive is taxable solely on its investment income. The Captive is included in the Company's consolidated financial statements and its federal income return.

Bank Owned Life Insurance

First Mid Bank has purchased life insurance policies on certain senior management. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts that are probable at settlement.

Revenue Recognition

Accounting Standards Codification 606, *Revenue from Contracts with Customers* ("ASC 606"), establishes a revenue recognition model for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts to provide goods or services to customers. Most of the Company's revenue-generating transactions are not subject to ASC 606, including revenue generated from financial instruments, such as loans and investment securities, and revenue related to mortgage servicing activities, which are subject to other accounting standards. A description of the revenue-generating activities that are within the scope of ASC 606, and included in other income in the Company's condensed consolidated statements of income are as follows:

Trust revenues. The Company generates fee income from providing fiduciary services through its subsidiary, First Mid Wealth Management Company. Fees are billed in arrears based upon the preceding period account balance. Revenue from farm management services is recorded when the service is complete, for example when crops are sold.

Brokerage commissions. Revenue is recorded at the beginning of each quarter through billing to customers based on the account asset size on the last day of the previous quarter. If a withdrawal of funds takes place, a prorated refund may occur; this is reflected within the same quarter as the original billing occurred. All performance obligations are met within the same quarter that the revenue is recorded.

Insurance commissions. The Company's insurance agency subsidiary, First Mid Insurance, receives commissions on premiums of new and renewed business policies. First Mid Insurance records commission revenue on direct bill policies as the cash is received. For agency bill policies, First Mid Insurance retains its commission portion of the customer premium payment and remits the balance to the carrier. In both cases, the entire performance obligation is held by the carriers.

Service charges on deposits. The Company generates revenue from fees charged for deposit account maintenance, overdrafts, wire transfers, and check fees. The revenue related to deposit fees is recognized at the time the performance obligation is satisfied.

ATM/debit card revenue. The Company generates revenue through service charges on the use of its ATM machines and interchange income from the use of Company issued credit and debit cards. The revenue is recognized at the time the service is used and the performance obligation is satisfied.

Other income. Treasury management fees and lock box fees are received and recorded after the service performance obligation is completed. Merchant bank card fees are received from various vendors; however, the performance obligation is with the vendors. The Company records gains on the sale of loans and the sale of OREO properties after the transactions are complete and transfer of ownership has occurred.

As each of the Company's facilities is in markets with similar economies, no disaggregation of revenue is necessary.

Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive loss included in stockholders' equity as of June 30, 2024 and December 31, 2023 are as follows (in thousands):

	Unrealized Losses on Securities
June 30, 2024	
Net unrealized losses on securities available-for-sale	\$ (200,459)
Tax benefit	53,461
Balance at June 30, 2024	<u>\$ (146,998)</u>
December 31, 2023	
Net unrealized losses on securities available-for-sale	\$ (192,149)
Tax benefit	55,722
Balance at December 31, 2023	<u>\$ (136,427)</u>

Amounts reclassified from accumulated other comprehensive loss and the affected line items in the statements of income during the three and six months ended June 30, 2024 and 2023, were as follows (in thousands):

	Amounts Reclassified from Other Comprehensive Income (Loss)				Affected Line Item in the Statements of Income	
	Three months ended June 30,		Six months ended June 30,			
	2024	2023	2024	2023		
Realized gain (loss) on available-for-sale securities	\$ (156)	\$ (6)	\$ (156)	\$ (52)	Securities (loss) gain, net	
Tax effect	43	1	43	14	Income taxes	
Total reclassifications out of accumulated other comprehensive income (loss)	<u>\$ (113)</u>	<u>\$ (5)</u>	<u>\$ (113)</u>	<u>\$ (38)</u>	Net reclassified amount	

See "Note 3 – Investment Securities" for more detailed information regarding unrealized losses on available-for-sale securities.

New Accounting Pronouncements

In December 2023, the Financial Accounting Standards Board issued ASU No. 2023-09, Income Tax (Topic 740): Improvements to Income Tax Disclosures. The amendments expand the disclosure requirements of income taxes, primarily related to the income tax rate reconciliation and income taxes paid with the intention to enhance transparency and decision usefulness of income tax disclosures. The amendments are effective for fiscal years beginning after December 15, 2024. Early adoption is permitted. The adoption of this accounting pronouncement will have no impact on the Financial Statements aside from additional disclosures presented in the Notes to Consolidated Financial Statements.

Note 2 -- Earnings Per Share

Basic net income per common share available to common stockholders is calculated as net income less preferred stock dividends divided by the weighted average number of common shares outstanding. Diluted net income per common share available to common stockholders is computed using the weighted average number of common shares outstanding, increased by the Company's stock options, unless anti-dilutive.

The components of basic and diluted net income per common share available to common stockholders for the three and six months ended June 30, 2024 and 2023 were as follows:

	Three months ended June 30,		Six months ended June 30,	
	2024	2023	2024	2023
Basic net income per common share				
Available to common stockholders:				
Net income	\$ 19,745,000	\$ 16,567,000	\$ 40,248,000	\$ 35,747,000
Weighted average common shares outstanding	23,896,210	20,528,717	23,884,472	20,510,585
Basic earnings per common share	\$ <u>0.83</u>	\$ <u>0.81</u>	\$ <u>1.69</u>	\$ <u>1.74</u>
Diluted net income per common share				
Available to common stockholders:				
Net income applicable to diluted earnings per share	\$ 19,745,000	\$ 16,567,000	\$ 40,248,000	\$ 35,747,000
Weighted average common shares outstanding	23,896,210	20,528,717	23,884,472	20,510,585
Dilutive potential common shares: restricted stock awarded	101,942	99,522	94,772	85,698
Diluted weighted average common shares outstanding	23,998,152	20,628,239	23,979,244	20,596,283
Diluted earnings per common share	\$ <u>0.82</u>	\$ <u>0.80</u>	\$ <u>1.68</u>	\$ <u>1.74</u>

There were no shares excluded when computing diluted earnings per share for the three and six months ended June 30, 2024 and 2023 because they were anti-dilutive.

Note 3 -- Investment Securities

The amortized cost, gross unrealized gains and losses and estimated fair values for available-for-sale and held-to-maturity securities by major security type at June 30, 2024 and December 31, 2023 were as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
June 30, 2024				
Available-for-sale:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 224,831	\$ —	\$ (25,249)	\$ 199,582
Obligations of states and political subdivisions	334,386	132	(57,452)	277,066
Mortgage-backed securities: GSE residential	684,817	857	(114,620)	571,054
Other securities	67,075	—	(4,127)	62,948
Total available-for-sale	<u>\$ 1,311,109</u>	<u>\$ 989</u>	<u>\$ (201,448)</u>	<u>\$ 1,110,650</u>
Held-to-maturity:				
Other investments	\$ 2,277	\$ —	\$ —	\$ 2,277
Total held-to-maturity	<u>\$ 2,277</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 2,277</u>
December 31, 2023				
Available-for-sale:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 237,975	\$ —	\$ (26,219)	\$ 211,656
Obligations of states and political subdivisions	337,835	152	(49,371)	288,616
Mortgage-backed securities: GSE residential	714,216	1,158	(113,074)	602,300
Other securities	73,795	—	(4,795)	69,000
Total available-for-sale	<u>\$ 1,363,721</u>	<u>\$ 1,310</u>	<u>\$ (193,459)</u>	<u>\$ 1,171,572</u>
Held-to-maturity:				
Other investments	\$ 2,286	\$ —	\$ —	\$ 2,286
Total held-to-maturity	<u>\$ 2,286</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 2,286</u>

The Company also had \$4,258,000 and \$4,074,000 of equity securities, at fair value, as of June 30, 2024 and December 31, 2023, respectively. The Company's held-to-maturity securities are annuities for which the risk of loss is minimal. As such, as of June 30, 2024, the Company did not record an allowance for credit losses on its held-to-maturity securities.

Realized gains and losses resulting from sales of securities were as follows during the three and six months ended June 30, 2024 and 2023 (in thousands):

	Three months ended		Six months ended	
	June 30, 2024	2023	June 30, 2024	2023
Gross gains	\$ 35	\$ —	\$ (35)	\$ 6
Gross losses	(191)	(6)	(191)	(58)

The following table indicates the expected maturities of investment securities classified as available-for-sale presented at fair value, and held-to-maturity presented at amortized cost, at June 30, 2024 and the weighted average yield for each range of maturities (dollars in thousands):

	One year or less	After 1 through 5 years	After 5 through 10 years	After ten years	Total
Available-for-sale:					
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 176,425	\$ 23,157	\$ —	\$ —	\$ 199,582
Obligations of state and political subdivisions	24,140	105,238	146,166	1,522	277,066
Mortgage-backed securities: GSE residential	3,257	4,817	33,330	529,650	571,054
Other securities	38,696	23,470	782	—	62,948
Total available-for-sale investments	\$ 242,518	\$ 156,682	\$ 180,278	\$ 531,172	\$ 1,110,650
Weighted average yield	2.01 %	2.49 %	2.26 %	1.82 %	2.03 %
Full tax-equivalent yield	2.10 %	2.94 %	2.71 %	1.84 %	2.19 %
Held to maturity:					
Other investments	\$ —	\$ —	\$ —	\$ 2,277	\$ 2,277
Total held-to-maturity	\$ —	\$ —	\$ —	\$ 2,277	\$ 2,277
Weighted average yield	— %	— %	— %	— %	— %
Full tax-equivalent yield	— %	— %	— %	— %	— %

The weighted average yields are calculated based on the amortized cost and effective yields weighted for the scheduled maturity of each security. Tax-equivalent yields have been calculated using a 21% tax rate. With the exception of obligations of the U.S. Treasury and other U.S. government agencies and corporations, there were no investment securities of any single issuer, the book value of which exceeded 10% of stockholders' equity at June 30, 2024.

Investment securities carried at approximately \$728 million and \$831 million at June 30, 2024 and December 31, 2023, respectively, were pledged to secure public deposits and repurchase agreements and for other purposes as permitted or required by law.

The following table presents the aging of gross unrealized losses and fair value by investment category as of June 30, 2024 and December 31, 2023 (in thousands):

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
June 30, 2024						
Available-for-sale:						
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 3,293	\$ (1)	\$ 196,288	\$ (25,248)	\$ 199,581	\$ (25,249)
Obligations of states and political subdivisions	23,541	(1,370)	247,125	(56,082)	270,666	(57,452)
Mortgage-backed securities: GSE residential	5,549	(146)	535,856	(114,474)	541,405	(114,620)
Other securities	—	—	57,196	(4,127)	57,196	(4,127)
Total	\$ 32,383	\$ (1,517)	\$ 1,036,465	\$ (199,931)	\$ 1,068,848	\$ (201,448)
December 31, 2023						
Available-for-sale:						
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 1,288	\$ (4)	\$ 210,069	\$ (26,215)	\$ 211,357	\$ (26,219)
Obligations of states and political subdivisions	22,281	(333)	241,630	(49,038)	263,911	(49,371)
Mortgage-backed securities: GSE residential	5,818	(67)	566,197	(113,007)	572,015	(113,074)
Other securities	5,311	(439)	57,939	(4,356)	63,250	(4,795)
Total	\$ 34,698	\$ (843)	\$ 1,075,835	\$ (192,616)	\$ 1,110,533	\$ (193,459)

U.S. Treasury Securities and Obligations of U.S. Government Corporations and Agencies. At June 30, 2024 there were thirty-two available-for-sale securities with a fair value of \$196.3 million and unrealized losses of \$25.2 million in a continuous unrealized loss position for twelve months or more. At December 31, 2023, there were thirty-six available-for-sale securities with a fair value of \$210.1 million and unrealized losses of \$26.2 million in a continuous unrealized loss position for twelve months or more. There were no held-to-maturity U.S. Treasury securities and obligations of U.S. government corporations and agencies in a continuous unrealized loss position for twelve months or more.

Obligations of states and political subdivisions. At June 30, 2024, there were zero obligations of states and political subdivisions with a fair value of \$247.1 million and unrealized losses of \$56.1 million in a continuous unrealized loss position for twelve months or more. At December 31, 2023 there were two hundred thirty-seven obligations of states and political subdivisions with a fair value of \$241.6 million and unrealized losses of \$49.0 million in a continuous unrealized loss position for twelve months or more.

Mortgage-backed Securities: GSE Residential. At June 30, 2024, there were two hundred fifty mortgage-backed securities with a fair value of \$535.9 million and unrealized losses of \$114.5 million in a continuous unrealized loss position for twelve months or more. At December 31, 2023, there were two hundred sixty-three mortgage-backed securities with a fair value of \$566.2 million and unrealized losses of \$113.0 million in a continuous unrealized loss position for twelve months or more.

Other securities. At June 30, 2024, there were forty other securities with a fair value of \$57.2 million and unrealized losses of \$4.1 million in a continuous unrealized loss position for twelve months or more. At December 31, 2023, there were forty-three other securities with a fair value of \$57.9 million and unrealized losses of \$4.4 million in a continuous unrealized loss position for twelve months or more.

Note 4 – Loans and Allowance for Credit Losses

Loans are stated at amortized cost net of an allowance for credit losses. Amortized cost is the unpaid principal net of unearned premiums and discounts, and net deferred origination fees and costs. Deferred loan origination fees are reduced by loan origination costs and are amortized to interest income over the life of the related loan using methods that approximated the effective interest rate method. Interest on substantially all loans is credited to income based on the principal amount outstanding.

A summary of loans at June 30, 2024 and December 31, 2023 follows (in thousands):

	June 30, 2024	December 31, 2023
Construction and land development	\$ 197,036	\$ 207,033
Agricultural real estate	387,741	392,265
1-4 family residential properties	514,034	549,843
Multifamily residential properties	336,558	321,537
Commercial real estate	2,433,949	2,416,294
Loans secured by real estate	3,869,318	3,886,972
Agricultural loans	213,889	196,202
Commercial and industrial loans	1,274,672	1,273,637
Consumer loans	71,623	92,142
All other loans	175,809	184,609
Total gross loans	5,605,311	5,633,562
Less: loans held for sale	7,764	4,980
	5,597,547	5,628,582
Less:		
Net deferred loan fees, premiums and discounts	44,694	52,997
Allowance for credit losses	68,312	68,675
Net loans	<u>\$ 5,484,541</u>	<u>\$ 5,506,910</u>

Loans expected to be sold are classified as held for sale in the consolidated financial statements and are recorded at fair value, taking into consideration future commitments to sell the loans. These loans are primarily for 1-4 family residential properties.

Accrued interest on loans, which is excluded from the amortized cost of the balances above, totaled \$32.3 million and \$29.9 million at June 30, 2024 and December 31, 2023, respectively.

Most of the Company's business activities are with customers located near the Company's branch locations in Illinois, Missouri, Texas, and Wisconsin. At June 30, 2024, the Company's loan portfolio included \$601.6 million of loans to borrowers whose businesses are directly related to agriculture. Of this amount, \$490.2 million was concentrated in corn and other grain farming. Total loans to borrowers whose businesses are directly related to agriculture increased \$13.2 million from \$588.5 million at December 31, 2023 due to seasonal timing of cash flow requirements. Loans concentrated in corn and other grain farming increased \$17.8 million from \$472.5 million at December 31, 2023. The Company's underwriting practices include collateralization of loans. Any extended period of low commodity prices, drought conditions, significantly reduced yields on crops and/or reduced levels of government assistance to the agricultural industry could result in an increase in the level of problem agriculture loans and potentially result in loan losses within the agricultural portfolio.

In addition, the Company has \$223.1 million of loans to motels and hotels. The performance of these loans is dependent on borrower specific issues as well as the general level of business and personal travel within the region. While the Company adheres to sound underwriting standards, a prolonged period of reduced business or personal travel could result in an increase in nonperforming loans to this business segment and potentially in loan losses. The Company also has \$1.07 billion of loans to lessors of non-residential buildings, and \$562.3 million of loans to lessors of residential buildings and dwellings.

The structure of the Company's loan approval process is based on progressively larger lending authorities granted to individual loan officers, loan committees, and ultimately the board of directors. Outstanding balances to one borrower or affiliated borrowers are limited by federal regulation and most borrowers are below regulatory thresholds. The Company can occasionally have outstanding balances to one borrower up to but not exceeding the regulatory threshold should underwriting guidelines warrant. Most of the Company's loans are to businesses located in the geographic market areas served by the Company's branch bank system. Additionally, a significant portion of the collateral securing the loans in the portfolio is located within the Company's primary geographic footprint. In general, the Company adheres to loan underwriting standards consistent with industry guidelines for all loan segments.

The Company's lending can be summarized into the following primary areas:

Commercial Real Estate Loans. Commercial real estate loans are generally comprised of loans to small business entities to purchase or expand structures in which the business operations are housed, loans to owners of real estate who lease space to non-related commercial entities, loans for construction and land development, loans to hotel operators, and loans to owners of multi-family residential structures, such as apartment buildings. Commercial real estate loans are underwritten based on historical and projected cash flows of the borrower and secondarily on the underlying real estate pledged as collateral on the debt. For the various types of commercial real estate loans, minimum criteria have been established within the Company's loan policy regarding debt service coverage while maximum limits on loan-to-value and amortization periods have been defined. Maximum loan-to-value ratios range from 65% to 80% depending upon the type of real estate collateral, while the desired minimum debt coverage ratio is 1.20x. Amortization periods for commercial real estate loans are generally limited to twenty or twenty five years, depending on the loan-to-value. The Company's commercial real estate portfolio is below the thresholds that would designate a concentration in commercial real estate lending, as established by the federal banking regulators.

The following table represents the gross commercial real estate loans by property type as of June 30, 2024 (in thousands):

	June 30, 2024
Commercial real estate	
Owner occupied	\$ 788,928
Non owner occupied	
Shopping centers and malls	245,046
Hotels and motels	214,471
Industrial and warehouse	205,461
Skilled nursing facility	154,034
Office	149,206
Retail	117,815
Medical office	101,690
Assisted living facility	96,883
Other property types	360,415
Total commercial real estate	\$ 2,433,949

Commercial and Industrial Loans. Commercial and industrial loans are primarily comprised of working capital loans used to purchase inventory and fund accounts receivable that are secured by business assets other than real estate. These loans are generally written for one year or less. Also, equipment financing is provided to businesses with these loans generally limited to 80% of the value of the collateral and amortization periods limited to seven years. Commercial loans are often accompanied by a personal guaranty of the principal owners of a business. Like commercial real estate loans, the underlying cash flow of the business is the primary consideration in the underwriting process. The financial condition of commercial borrowers is monitored at least annually with the type of financial information required determined by the size of the relationship. Measures employed by the Company for businesses with higher risk profiles include the use of government-assisted lending programs through the Small Business Administration and U.S. Department of Agriculture.

Agricultural and Agricultural Real Estate Loans. Agricultural loans are generally comprised of seasonal operating lines to cash grain farmers to plant and harvest corn and soybeans and term loans to fund the purchase of equipment. Agricultural real estate loans are primarily comprised of loans for the purchase of farmland. Specific underwriting standards have been established for agricultural-related loans including the establishment of projections for each operating year based on industry developed estimates of farm input costs and expected commodity yields and prices. Operating lines are typically written for one year and secured by the crop. Loan-to-value ratios on loans secured by farmland generally do not exceed 65% and have amortization periods limited to twenty-five years. Federal government-assistance lending programs through the Farm Service Agency are used to mitigate the level of credit risk when deemed appropriate.

Residential Real Estate Loans. Residential real estate loans generally include loans for the purchase or refinance of residential real estate properties consisting of one-to-four units and home equity loans and lines of credit. The Company sells most of its long-term fixed rate residential real estate loans to secondary market investors. The Company also releases the servicing of these loans upon sale. Residential real estate loans are typically underwritten to conform to industry standards including criteria for maximum debt-to-income and loan-to-value ratios as well as minimum credit scores. Loans secured by first liens on residential real estate held in the portfolio typically do not exceed 80% of the value of the collateral and have amortization periods of twenty-five years or less. The Company does not originate subprime mortgage loans.

Consumer Loans. Consumer loans are primarily comprised of loans to individuals for personal and household purposes such as the purchase of an automobile or other living expenses. Minimum underwriting criteria have been established that consider credit score, debt-to-income ratio, employment history, and collateral coverage. Typically, consumer loans are set up on monthly payments with amortization periods based on the type and age of the collateral.

Other Loans. Other loans consist primarily of loans to municipalities to support community projects such as infrastructure improvements or equipment purchases. Underwriting guidelines for these loans are consistent with those established for commercial loans with the additional repayment source of the taxing authority of the municipality.

Allowance for Credit Losses

The allowance for credit losses represents the Company's best estimate of the reserve necessary to adequately account for probable losses expected over the remaining contractual life of the assets. The provision for credit losses is the charge against current earnings that is determined by the Company as the amount needed to maintain an adequate allowance for credit losses. In determining the adequacy of the allowance for credit losses, and therefore the provision to be charged to current earnings, the Company relies predominantly on a disciplined credit review and approval process that extends to the full range of the Company's credit exposure. The review process is directed by the overall lending policy and is intended to identify, at the earliest possible stage, borrowers who might be facing financial difficulty. Factors considered by the Company in evaluating the overall adequacy of the allowance include historical net loan losses, the level and composition of nonaccrual, past due and modified loans, trends in volumes and terms of loans, effects of changes in risk selection and underwriting standards or lending practices, lending staff changes, concentrations of credit, industry conditions and the current economic conditions in the region where the Company operates. The Company estimates the appropriate level of allowance for credit losses by evaluating large individually evaluated loans separately from non-individually evaluated loans.

Individually Evaluated Loans

The Company individually evaluates certain loans for impairment. In general, these loans have been internally identified via the Company's loan grading system as credits requiring management's attention due to underlying problems in the borrower's business or collateral concerns. This evaluation considers expected future cash flows, the value of collateral and other factors that may impact the borrower's ability to make payments when due. For loans greater than \$250,000, impairment is individually measured each quarter using one of three alternatives: (1) the present value of expected future cash flows discounted at the loan's effective interest rate; (2) the loan's observable market price, if available; or (3) the fair value of the collateral less costs to sell for collateral dependent

loans and loans for which foreclosure is deemed to be probable. A specific allowance is assigned when expected cash flows or collateral are less than the carrying amount of the loan. The carrying value of the loan reflects reductions from prior charge-offs.

Non-Individually Evaluated Loans

Non-individually evaluated loans comprise the vast majority of the Company's total loan portfolio and include loans in accrual status and those credits not identified as modified loans. A small portion of these loans are considered "criticized" due to the risk rating assigned reflecting elevated credit risk due to characteristics, such as a strained cash flow position, associated with the individual borrowers. Criticized loans are those assigned risk ratings of Special Mention, Substandard, or Doubtful.

To determine the allowance, the loan portfolio is segmented based on similar risk characteristics. The allowance for credit losses is estimated using a discounted cash flow (DCF) methodology. The DCF projects future cash flows over the life of the loan portfolio. Probability of default (PD) and loss given default (LGD) are key components in calculating expected losses in this model. The PD is forecasted using a regression model that determines the likelihood of default with a forward-looking forecast of unemployment rates. The LGD is the percentage of defaulted loans that is ultimately charged off. The allowance is calculated as the net present value of the expected cash flows less the amortized cost basis of the loans. Prior to 2022, the allowance for credit losses was measured on a collective (pool) basis for non-individually evaluated loans with similar risk characteristics. Historical credit loss experience provided the basis for the estimate of expected credit losses. Adjustments to expected losses are made using qualitative factors for relevant to each loan segment including merger & acquisition activity, economic conditions, changes in policies, procedures & underwriting, and concentrations. In addition, a forecast, using reasonable and supportable future conditions, is prepared that is used to estimate expected changes to existing and historical conditions in the current period.

The Company also considers specific current economic events occurring globally, in the U.S. and in its local markets. Events considered include the status of trade agreements with China, scheduled increases in minimum wage and changes to the minimum salary threshold for overtime provisions, current and projected unemployment rates, current and projected grain and oil prices and economies of local markets where customers work and operate.

Within each pool, risk elements are evaluated that have specific impacts to the borrowers within the pool. These, along with the general risks and events, and the specific lending policies and procedures by loan type described above, are analyzed to estimate the qualitative factors used to adjust the historical loss rates.

During the current period, the following assumptions and factors were considered when determining the historical loss rate and any potential adjustments by loan pool.

Construction and Land Development Loans. Historical losses in this segment remain very low. While inflationary pressures have caused some risk in this segment, most projects are associated with financially strong borrowers. The qualitative factors for this segment, on a net basis, declined by a minor amount for the quarter due to balances falling below an internal concentration threshold.

Agricultural Real Estate Loans. Historical losses in the segment remain very low. Farmland values have increased over an extended period of time and remained stable over the last year. There was no change to the qualitative factors for this segment.

Residential Real Estate Non Owner Occupied Loans. The loan segment has remained stable throughout the last several years. Both adversely classified and past dues have been consistent. There was no change to the qualitative factors for this segment.

Residential Real Estate Owner Occupied Loans. The loan segment has remained stable throughout the last several years. Both adversely classified and past dues have been consistent. There was no change to the qualitative factors for this segment.

HELOC Loans. These loans are a small segment to overall loan balances. In the period, past dues increased to a level that resulted in a significant increase to the qualitative factors for this segment.

Commercial Real Estate Owner Occupied Loans. This segment has remained stable, despite macro concerns over commercial real estate. The Company has previously increased qualitative factors for those conditions, but believes the stability in the portfolio for the period did not require the need for additional adjustments.

Commercial Real Estate Non Owner Occupied Loans. This segment includes the Company's largest balances. While qualitative factors had been increased in past periods for the economic uncertainty in the macro conditions, the Company did not believe any additional changes were warranted other than minor decrease for falling below the internal concentration thresholds for factor adjustments.

Agricultural Loans. Losses in this segment are very low. Commodity prices have been volatile but yield expectations are increasing from previous concerns from the weather. The qualitative factors of this segment were increased in prior periods and the Company

did not believe any further increase was warranted in this period.

Commercial and Industrial Loans. This segment includes the largest balance of allowance for credit losses. The qualitative factors for this segment were not changed in the periods as the allowance is viewed as appropriate for the current risk and outlook. Most of the repricing for higher rates in this loan segment has already occurred.

Consumer Loans. This segment is a small portion of the Company's loan portfolio. This segment will likely be impacted by any recession that may appear and already been impacted by the inflationary pressures. The current allowance for this segment is appropriate for the risk and, therefore, there were no changes to the qualitative factors period.

Acquired Loans. Prior to January 1, 2020 loans acquired with evidence of credit deterioration since origination and for which it was probable that all contractually required payments would not be collected were considered purchased credit impaired at the time of acquisition. Purchase credit-impaired ("PCI") loans were accounted for under ASC 310-30, *Receivables--Loans and Debt Securities Acquired with Deteriorated Credit Quality* ("ASC 310-30"), and were initially measured at fair value, which included the estimated future credit losses expected to be incurred over the life of the loan.

Accordingly, an allowance for credit losses related to these loans was not carried over and recorded at the acquisition date. The cash flows expected to be collected were estimated using current key assumptions, such as default rates, value of underlying collateral, severity and prepayment speeds.

Subsequent to January 1, 2020, loans acquired in a business combination that have experienced more-than-insignificant deterioration in credit quality since origination are considered purchased credit deteriorated ("PCD") loans. At the acquisition date, an estimate of expected credit losses is made for groups of PCD loans with similar risk characteristics and individual PCD loans without similar risk characteristics. This initial allowance for credit losses is allocated to individual PCD loans and added to the purchase price or acquisition date fair values to establish the initial amortized cost basis of the PCD loans. As the initial allowance for credit losses is added to the purchase price, there is no credit loss expense recognized upon acquisition of a PCD loan. Any difference between the unpaid principal balance of PCD loans and the amortized cost basis is considered to relate to noncredit factors and results in a discount or premium. Discounts and premiums are recognized through interest income on a level-yield method over the life of the loans.

For acquired loans not deemed purchased credit deteriorated at acquisition, the differences between the initial fair value and the unpaid principal balance are recognized as interest income on a level-yield basis over the lives of the related loans. At the acquisition date, an initial allowance for expected credit losses is estimated and recorded as credit loss expense. The subsequent measurement of expected credit losses for all acquired loans is the same as the subsequent measurement of expected credit losses for originated loans.

The following table presents the activity in the allowance for credit losses based on portfolio segment for the three and six months ended June 30, 2024 (in thousands):

	Construction and Land Development	Agricultural Real Estate	1-4 Family Residential Properties	Commercial Real Estate	Agricultural Loans	Commercial and Industrial	Consumer Loans	Total
Three months ended June 30, 2024								
Beginning balance	\$ 2,701	\$ 1,358	\$ 3,778	\$ 32,537	\$ 778	\$ 24,631	\$ 2,153	\$ 67,936
Provision for credit loss expense	(55)	14	(264)	376	316	624	72	1,083
Loans charged off	—	—	34	—	209	368	374	985
Recoveries collected	—	—	100	5	—	44	129	278
Ending balance	<u>\$ 2,646</u>	<u>\$ 1,372</u>	<u>\$ 3,580</u>	<u>\$ 32,918</u>	<u>\$ 885</u>	<u>\$ 24,931</u>	<u>\$ 1,980</u>	<u>\$ 68,312</u>
Six months ended June 30, 2024								
Beginning balance	\$ 2,918	\$ 1,366	\$ 4,220	\$ 31,758	\$ 705	\$ 25,450	\$ 2,258	\$ 68,675
Provision for credit loss expense	(272)	6	(688)	994	441	15	230	726
Loans charged off	—	—	101	—	261	642	800	1,804
Recoveries collected	—	—	149	166	—	108	292	715
Ending balance	<u>\$ 2,646</u>	<u>\$ 1,372</u>	<u>\$ 3,580</u>	<u>\$ 32,918</u>	<u>\$ 885</u>	<u>\$ 24,931</u>	<u>\$ 1,980</u>	<u>\$ 68,312</u>

The following tables present the activity in the allowance for credit losses based on portfolio segment for the three and six months ended June 30, 2023 and for the year ended December 31, 2023 (in thousands):

	Construction and Land Development	Agricultural Real Estate	1-4 Family Residential Properties	Commercial Real Estate	Agricultural Loans	Commercial and Industrial	Consumer Loans	Total
Three months ended June 30, 2023								
Beginning balance	\$ 2,426	\$ 1,404	\$ 3,420	\$ 27,327	\$ 580	\$ 21,142	\$ 1,924	\$ 58,223
Provision for credit loss expense	(204)	(34)	(235)	385	213	414	(81)	458
Loans charged off	14	—	16	25	276	49	200	580
Recoveries collected	—	—	78	327	7	37	169	618
Ending balance	<u>\$ 2,208</u>	<u>\$ 1,370</u>	<u>\$ 3,247</u>	<u>\$ 28,014</u>	<u>\$ 524</u>	<u>\$ 21,544</u>	<u>\$ 1,812</u>	<u>\$ 58,719</u>
Six months ended June 30, 2023								
Beginning balance	\$ 2,250	\$ 1,433	\$ 3,742	\$ 28,157	\$ 585	\$ 20,808	\$ 2,118	\$ 59,093
Provision for credit loss expense	(28)	(63)	(541)	(449)	205	505	12	(359)
Loans charged off	14	—	56	25	276	62	627	1,060
Recoveries collected	—	—	102	331	10	293	309	1,045
Ending balance	<u>\$ 2,208</u>	<u>\$ 1,370</u>	<u>\$ 3,247</u>	<u>\$ 28,014</u>	<u>\$ 524</u>	<u>\$ 21,544</u>	<u>\$ 1,812</u>	<u>\$ 58,719</u>
Twelve months ended December 31, 2023								
Beginning Balance	\$ 2,250	\$ 1,433	\$ 3,742	\$ 28,157	\$ 585	\$ 20,808	\$ 2,118	\$ 59,093
Initial allowance on loans purchased with credit deterioration	308	—	124	1,066	—	2,273	20	3,791
Provision for credit loss expense	374	(67)	225	1,755	490	2,322	1,005	6,104
Loans charged off	14	—	87	25	408	529	1,568	2,631
Recoveries collected	—	—	216	805	38	576	683	2,318
Ending balance	<u>\$ 2,918</u>	<u>\$ 1,366</u>	<u>\$ 4,220</u>	<u>\$ 31,758</u>	<u>\$ 705</u>	<u>\$ 25,450</u>	<u>\$ 2,258</u>	<u>\$ 68,675</u>

Consistent with regulatory guidance, charge-offs on all loan segments are taken when specific loans, or portions thereof, are considered uncollectible. The Company's policy is to promptly charge these loans off in the period the uncollectible loss is reasonably determined.

For all loan portfolio segments except 1-4 family residential properties and consumer, the Company promptly charges-off loans, or portions thereof, when available information confirms that specific loans are uncollectible based on information that includes, but is not limited to, (1) the deteriorating financial condition of the borrower, (2) declining collateral values, and/or (3) legal action, including bankruptcy, that impairs the borrower's ability to adequately meet its obligations. For individually evaluated loans that are considered solely collateral dependent, a partial charge-off is recorded when a loss has been confirmed by an updated appraisal or other appropriate valuation of the collateral.

The Company charges-off 1-4 family residential and consumer loans, or portions thereof, when the Company reasonably determines the amount of the loss. The Company adheres to time frames established by applicable regulatory guidance which provides for the charge-down of 1-4 family first and junior lien mortgages to the net realizable value less costs to sell when the loan is 180 days past due, charge-off of unsecured open-end loans when the loan is 180 days past due, and charge down to the net realizable value when other secured loans are 120 days past due. Loans at these respective delinquency thresholds for which the Company can clearly document that the loan is both well-secured and in the process of collection, such that collection will occur regardless of delinquency status, need not be charged off.

The following table presents the amortized cost basis of collateral-dependent loans by class of loans that were individually evaluated to determine expected credit losses, and the related allowance for credit losses, as of June 30, 2024 (in thousands):

	Collateral				Total	Allowance for Credit Losses
	Real Estate	Business Assets	Other			
1-4 family residential properties	\$ 1,157	\$ —	\$ —	\$ 1,157	\$ 1,157	\$ —
Multifamily residential properties	1,018	—	—	—	1,018	—
Commercial real estate	8,327	—	—	—	8,327	354
Loans secured by real estate	10,502	—	—	—	10,502	354
Commercial and industrial loans	—	408	—	—	408	—
Total loans	<u>\$ 10,502</u>	<u>\$ 408</u>	<u>\$ —</u>	<u>\$ 10,910</u>	<u>\$ 354</u>	

Credit Quality

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, collateral support, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis is performed on a continuous basis. The Company uses the following definitions for risk ratings which are commensurate with a loan considered "criticized":

Special Mention. Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

Substandard. Loans classified as substandard are inadequately protected by the current sound-worthiness and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful. Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, based on currently existing factors, conditions and values, highly questionable and improbable.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered pass rated loans.

The following tables present the credit risk profile of the Company's loan portfolio on amortized cost basis based on risk rating category and year of origination as of June 30, 2024 (in thousands):

Risk rating June 30, 2024	Term Loans by Origination Year							Revolving Loans		Total
	2024	2023	2022	2021	2020	Prior				
Construction and land development loans										
Pass	\$ 25,088	\$ 97,041	\$ 28,796	\$ 16,349	\$ 5,124	\$ 22,568	\$ —	\$ —	\$ 194,966	
Special mention	—	—	—	—	—	401	—	—	401	
Substandard	—	—	6	—	—	16	—	—	22	
Total	\$ 25,088	\$ 97,041	\$ 28,802	\$ 16,349	\$ 5,124	\$ 22,985	\$ —	\$ —	\$ 195,389	
Current period gross writeoffs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	
Agricultural real estate loans										
Pass	\$ 13,389	\$ 18,478	\$ 161,004	\$ 55,184	\$ 51,641	\$ 82,032	\$ —	\$ —	\$ 381,728	
Special mention	1,170	199	—	628	—	1,864	—	—	3,861	
Substandard	—	—	—	364	—	1,062	—	—	1,426	
Total	\$ 14,559	\$ 18,677	\$ 161,004	\$ 56,176	\$ 51,641	\$ 84,958	\$ —	\$ —	\$ 387,015	
Current period gross writeoffs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	
1-4 family residential property loans										
Pass	\$ 25,329	\$ 41,018	\$ 78,284	\$ 82,716	\$ 68,116	\$ 126,627	\$ 72,811	\$ 494,901	\$ 494,901	
Special mention	—	—	212	77	—	580	—	—	869	
Substandard	144	124	743	493	837	8,313	1,093	—	11,747	
Total	\$ 25,473	\$ 41,142	\$ 79,239	\$ 83,286	\$ 68,953	\$ 135,520	\$ 73,904	\$ 494,901	\$ 507,517	
Current period gross writeoffs	\$ —	\$ 36	\$ 10	\$ —	\$ —	\$ 55	\$ —	\$ —	\$ 101	
Commercial real estate loans										
Pass	\$ 81,149	\$ 204,555	\$ 723,001	\$ 561,064	\$ 314,856	\$ 832,804	\$ —	\$ —	\$ 2,717,429	
Special mention	365	—	2,657	1,313	295	6,887	—	—	11,517	
Substandard	—	—	3,793	434	—	8,228	—	—	12,455	
Total	\$ 81,514	\$ 204,555	\$ 729,451	\$ 562,811	\$ 315,151	\$ 847,919	\$ —	\$ —	\$ 2,741,401	
Current period gross writeoffs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	
Agricultural loans										
Pass	\$ 80,406	\$ 83,720	\$ 27,310	\$ 16,109	\$ 3,202	\$ 2,387	\$ —	\$ —	\$ 213,134	
Special mention	415	11	—	—	—	371	—	—	797	
Substandard	—	—	50	—	—	16	—	—	66	
Total	\$ 80,821	\$ 83,731	\$ 27,360	\$ 16,109	\$ 3,202	\$ 2,774	\$ —	\$ —	\$ 213,997	
Current period gross writeoffs	\$ —	\$ 64	\$ 100	\$ 52	\$ —	\$ 45	\$ —	\$ —	\$ 261	
Commercial and industrial loans										
Pass	\$ 124,458	\$ 268,023	\$ 284,063	\$ 221,470	\$ 142,785	\$ 389,153	\$ —	\$ —	\$ 1,429,952	
Special mention	221	1,023	1,190	6,365	1,426	3,077	—	—	13,302	
Substandard	—	109	201	210	30	653	—	—	1,203	
Total	\$ 124,679	\$ 269,155	\$ 285,454	\$ 228,045	\$ 144,241	\$ 392,883	\$ —	\$ —	\$ 1,444,457	
Current period gross writeoffs	\$ —	\$ 47	\$ 206	\$ 378	\$ 10	\$ 1	\$ —	\$ —	\$ 642	
Consumer loans										
Pass	\$ 3,310	\$ 6,963	\$ 31,916	\$ 15,509	\$ 6,876	\$ 5,572	\$ —	\$ —	\$ 70,146	
Special mention	—	—	20	—	—	—	—	—	20	
Substandard	—	54	255	196	126	44	—	—	675	
Total	\$ 3,310	\$ 7,017	\$ 32,191	\$ 15,705	\$ 7,002	\$ 5,616	\$ —	\$ —	\$ 70,841	
Current period gross writeoffs	\$ —	\$ 18	\$ 97	\$ 113	\$ 20	\$ 552	\$ —	\$ —	\$ 800	
Total loans										
Pass	\$ 353,129	\$ 719,798	\$ 1,334,374	\$ 968,401	\$ 592,600	\$ 1,461,143	\$ 72,811	\$ 5,502,256	\$ 5,502,256	
Special mention	2,171	1,233	4,079	8,383	1,721	13,180	—	—	30,767	
Substandard	144	287	5,048	1,697	993	18,332	1,093	—	27,594	
Total	\$ 355,444	\$ 721,318	\$ 1,343,501	\$ 978,481	\$ 595,314	\$ 1,492,655	\$ 73,904	\$ 5,560,617	\$ 5,560,617	
Current period gross writeoffs	\$ —	\$ 165	\$ 413	\$ 543	\$ 30	\$ 653	\$ —	\$ —	\$ 1,804	

The following tables present the credit risk profile of the Company's loan portfolio based on risk rating category as of December 31, 2023 (in thousands):

Risk rating	Term Loans by Origination Year						Prior	Revolving Loans	Total			
	2023	2022	2021	2020	2019							
December 31, 2023												
Construction and land development loans												
Pass	\$ 68,086	\$ 74,065	\$ 27,392	\$ 5,188	\$ 10,795	\$ 19,115	\$ —	\$ 204,641				
Special mention	—	—	—	—	—	—	—	—	—			
Substandard	—	—	—	—	—	436	—	—	436			
Total	\$ 68,086	\$ 74,065	\$ 27,392	\$ 5,188	\$ 10,795	\$ 19,115	\$ —	\$ 204,641				
Current period gross writeoffs	\$ —	\$ —	\$ —	\$ —	\$ 14	\$ —	\$ —	\$ —	\$ 14			
Agricultural real estate loans												
Pass	\$ 19,231	\$ 164,812	\$ 57,815	\$ 53,249	\$ 19,419	\$ 71,189	\$ —	\$ 385,715				
Special mention	206	—	627	—	1,170	1,868	—	—	3,871			
Substandard	—	—	371	—	—	1,175	—	—	1,546			
Total	\$ 19,437	\$ 164,812	\$ 58,813	\$ 53,249	\$ 20,589	\$ 74,232	\$ —	\$ 391,132				
Current period gross writeoffs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —			
1-4 family residential property loans												
Pass	\$ 66,119	\$ 96,995	\$ 79,085	\$ 73,073	\$ 26,854	\$ 105,257	\$ 75,700	\$ 523,083				
Special mention	—	967	3,184	—	—	3,804	10	7,965				
Substandard	152	759	460	396	288	8,865	501	11,421				
Total	\$ 66,271	\$ 98,721	\$ 82,729	\$ 73,469	\$ 27,142	\$ 117,926	\$ 76,211	\$ 542,469				
Current period gross writeoffs	\$ 10	\$ —	\$ —	\$ —	\$ 14	\$ 63	\$ —	\$ —	\$ 87			
Commercial real estate loans												
Pass	\$ 185,628	\$ 680,099	\$ 548,733	\$ 317,075	\$ 239,323	\$ 701,464	\$ —	\$ 2,672,322				
Special mention	3,666	2,706	1,317	2,159	1,563	7,778	—	19,189				
Substandard	—	3,899	520	20	775	7,108	—	12,322				
Total	\$ 189,294	\$ 686,704	\$ 550,570	\$ 319,254	\$ 241,661	\$ 716,350	\$ —	\$ 2,703,833				
Current period gross writeoffs	\$ —	\$ —	\$ —	\$ —	\$ 25	\$ —	\$ —	\$ —	\$ 25			
Agricultural loans												
Pass	\$ 147,993	\$ 27,895	\$ 10,044	\$ 2,549	\$ 1,883	\$ 5,854	\$ —	\$ 196,218				
Special mention	6	10	—	—	38	—	—	54				
Substandard	—	—	—	—	—	—	—	—				
Total	\$ 147,999	\$ 27,905	\$ 10,044	\$ 2,549	\$ 1,921	\$ 5,854	\$ —	\$ 196,272				
Current period gross writeoffs	\$ —	\$ 276	\$ —	\$ —	\$ —	\$ 132	\$ —	\$ —	\$ 408			
Commercial and industrial loans												
Pass	\$ 290,304	\$ 306,794	\$ 232,198	\$ 154,499	\$ 73,906	\$ 347,957	\$ —	\$ 1,405,658				
Special mention	1,047	1,857	9,982	562	597	28,900	—	42,945				
Substandard	—	537	791	58	29	750	—	2,165				
Total	\$ 291,351	\$ 309,188	\$ 242,971	\$ 155,119	\$ 74,532	\$ 377,607	\$ —	\$ 1,450,768				
Current period gross writeoffs	\$ —	\$ 353	\$ —	\$ 49	\$ 20	\$ 107	\$ —	\$ —	\$ 529			
Consumer loans												
Pass	\$ 9,547	\$ 40,225	\$ 21,264	\$ 10,387	\$ 4,475	\$ 4,035	\$ —	\$ 89,933				
Special mention	—	26	—	—	—	—	—	26				
Substandard	86	405	325	139	59	41	—	1,055				
Total	\$ 9,633	\$ 40,656	\$ 21,589	\$ 10,526	\$ 4,534	\$ 4,076	\$ —	\$ 91,014				
Current period gross writeoffs	\$ 22	\$ 177	\$ 89	\$ 10	\$ 7	\$ 1,075	\$ —	\$ —	\$ 1,380			
Total loans												
Pass	\$ 786,908	\$ 1,390,885	\$ 976,531	\$ 616,020	\$ 376,655	\$ 1,254,871	\$ 75,700	\$ 5,477,570				
Special mention	4,925	5,566	15,110	2,721	3,368	42,350	—	74,050				
Substandard	238	5,600	2,467	613	1,151	18,375	501	28,945				
Total	\$ 792,071	\$ 1,402,051	\$ 994,108	\$ 619,354	\$ 381,174	\$ 1,315,596	\$ 76,211	\$ 5,580,565				
Current period gross writeoffs	\$ 10	\$ 761	\$ 208	\$ 51	\$ 93	\$ 1,508	\$ —	\$ —	\$ 2,631			

The following table presents the Company's loan portfolio aging analysis at June 30, 2024 and December 31, 2023 (in thousands):

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans Receivable	Total Loans > 90 Days and Accruing
June 30, 2024							
Construction and land development	\$ 625	\$ —	\$ 456	\$ 1,081	\$ 194,308	\$ 195,389	\$ —
Agricultural real estate	100	—	1	101	386,914	387,015	—
1-4 family residential properties	5,357	1,618	1,330	8,305	499,212	507,517	—
Multifamily residential properties	—	44	551	595	333,851	334,446	—
Commercial real estate	686	405	8,432	9,523	2,397,432	2,406,955	—
Loans secured by real estate	6,768	2,067	10,770	19,605	3,811,717	3,831,322	—
Agricultural loans	1,240	—	—	1,240	212,757	213,997	—
Commercial and industrial loans	946	79	1,154	2,179	1,266,467	1,268,646	—
Consumer loans	376	41	137	554	70,287	70,841	—
All other loans	—	—	—	—	175,811	175,811	—
Total loans	<u>\$ 9,330</u>	<u>\$ 2,187</u>	<u>\$ 12,061</u>	<u>\$ 23,578</u>	<u>\$ 5,537,039</u>	<u>\$ 5,560,617</u>	<u>\$ —</u>
December 31, 2023							
Construction and land development	\$ —	\$ 585	\$ 450	\$ 1,035	\$ 204,042	\$ 205,077	\$ —
Agricultural real estate	—	—	1	1	391,131	391,132	—
1-4 family residential properties	3,054	530	1,018	4,602	537,867	542,469	—
Multifamily residential properties	150	—	551	701	318,428	319,129	—
Commercial real estate	819	74	3,765	4,658	2,380,046	2,384,704	—
Loans secured by real estate	4,023	1,189	5,785	10,997	3,831,514	3,842,511	—
Agricultural loans	—	—	—	—	196,272	196,272	—
Commercial and industrial loans	673	73	1,531	2,277	1,263,882	1,266,159	—
Consumer loans	983	162	330	1,475	89,539	91,014	—
All other loans	—	—	—	—	184,609	184,609	—
Total loans	<u>\$ 5,679</u>	<u>\$ 1,424</u>	<u>\$ 7,646</u>	<u>\$ 14,749</u>	<u>\$ 5,565,816</u>	<u>\$ 5,580,565</u>	<u>\$ —</u>

Individually Evaluated Loans

Within all loan portfolio segments, loans are considered impaired when, based on current information and events, it is probable the Company will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. 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. Impaired loans, excluding certain modified, are placed on nonaccrual status. Impaired loans include nonaccrual loans and loans modified in restructuring where concessions have been granted to borrowers experiencing financial difficulties. These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection. It is the Company's policy to have any restructured loans which are on nonaccrual status prior to being modified remain on nonaccrual status until, in the opinion of management, the financial position of the borrower indicates there is no longer any reasonable doubt as to the timely collection of interest or principal. If the restructured loan is on accrual status prior to being modified, the loan is reviewed to determine if the modified loan should remain on accrual status.

The Company's policy is to discontinue the accrual of interest income on all loans for which principal or interest is ninety days past due. The accrual of interest is discontinued earlier when, in the opinion of management, there is reasonable doubt as to the timely collection of interest or principal. Once interest accruals are discontinued, accrued but uncollected interest is charged against current year income. Subsequent receipts on non-accrual loans are recorded as a reduction of principal, and interest income is recorded only after principal recovery is reasonably assured. Interest on loans determined to be modified is recognized on an accrual basis in accordance with the restructured terms if the loan is in compliance with the modified terms. Nonaccrual loans are returned to accrual status when, in the opinion of management, the financial position of the borrower indicates there is no longer any reasonable doubt as to the timely collection of interest or principal. The Company requires a period of satisfactory performance of not less than six months before returning a nonaccrual loan to accrual status.

The amount of interest income recognized by the Company within the periods stated above was due to loans modified in restructuring that remain on accrual status.

Non-Accrual Loans

The following table presents the amortized cost basis of loans on nonaccrual status and of nonaccrual loans individually evaluated for which no allowance was recorded as of June 30, 2024 and December 31, 2023 (in thousands). There were no loans past due over eighty-nine days that were still accruing.

	June 30, 2024			December 31, 2023		
	Nonaccrual with no Allowance for Credit Loss	Total Nonaccrual	Nonaccrual with no Allowance for Credit Loss	Total Nonaccrual		
Construction and land development	\$ 6	\$ 6	\$ —	\$ —		
Agricultural real estate	1,125	1,125	1,146	1,146		
1-4 family residential properties	4,272	4,896	4,679	4,940		
Commercial real estate	9,096	10,421	10,237	10,237		
Loans secured by real estate	14,499	16,448	16,062	16,323		
Commercial and industrial loans	1,015	1,015	1,931	1,931		
Consumer loans	391	391	578	578		
Total loans	<u>\$ 15,905</u>	<u>\$ 17,854</u>	<u>\$ 18,571</u>	<u>\$ 18,832</u>		

Interest income that would have been recorded under the original terms of such nonaccrual loans totaled \$487,000 and \$122,000 for the six months ended June 30, 2024 and 2023, respectively.

Loan Modification Disclosures Pursuant to ASU 2022-02

The following table shows the amortized cost of loans at June 30, 2024 and 2023 that were both experiencing financial difficulty and modified segregated by portfolio segment and type of modification. The percentage of the amortized cost of loans that were modified to borrowers in financial distress as compared to outstanding loans is also presented below.

	Principal Forgiveness	Payment Delay Investment	Term Extension Modifications	Interest Rate Reduction	Total Class of Financing Receivable
June 30, 2024					
Agricultural real estate	\$ —	\$ 317	\$ —	\$ —	0.01%
1-4 family residential properties	—	49	778	—	0.01%
Commercial real estate	—	694	216	502	0.03%
Loans secured by real estate	—	1,060	994	502	0.05%
Commercial and industrial loans	—	168	126	—	0.01%
Consumer loans	—	5	12	—	—%
Total	<u>\$ —</u>	<u>\$ 1,233</u>	<u>\$ 1,132</u>	<u>\$ 502</u>	<u>0.05%</u>
June 30, 2023					
Agricultural real estate	\$ —	\$ 337	\$ —	\$ —	0.01%
1-4 family residential properties	—	60	868	—	0.02%
Commercial real estate	—	797	117	—	0.02%
Loans secured by real estate	—	1,194	985	—	0.05%
Commercial and industrial loans	—	233	286	—	0.01%
Consumer loans	—	8	43	—	—%
Total	<u>\$ —</u>	<u>\$ 1,435</u>	<u>\$ 1,314</u>	<u>\$ —</u>	<u>0.06%</u>

The Company closely monitors the performance of loans that have been modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. The following table shows the performance of such loans that have been modified in the last twelve months ended June 30, 2024 and 2023.

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due
June 30, 2024				
1-4 family residential properties	\$ 25	\$ —	\$ —	\$ 25
Commercial real estate	116	—	—	116
Loans secured by real estate	141	—	—	141
Commercial and industrial loans	131	—	—	131
Consumer loans	—	12	—	12
Total loans	\$ 272	\$ 12	\$ —	\$ 284
June 30, 2023				
Consumer loans	\$ —	\$ 17	\$ —	\$ 17
Total loans	\$ —	\$ 17	\$ —	\$ 17

The following table shows the financial effect of loan modifications during the current quarter to borrowers experiencing financial difficulty for the three and six months ended June 30, 2024 and 2023.

	Weighted Average Interest Rate Reduction	Weighted Average Term Extension (in months)
June 30, 2024		
Commercial and industrial loans	— %	7.00
Consumer loans	— %	—
	— %	7.00
June 30, 2023		
Commercial and industrial loans	4.75 %	5.13
Consumer loans	— %	3.00
	4.75 %	4.93

A loan is considered to be in payment default once it is 90 days past due under the modified terms. There were no loans modified during the prior twelve months that experienced defaults for six months ended June 30, 2024 or for the three and six months ended June 30, 2023.

Purchased Credit Deteriorated (PCD) Loans

The Company has acquired loans, for which there was, at acquisition, evidence of more than insignificant deterioration of credit quality since origination. The carrying amount of those loans at acquisition date is as follows (in thousands):

	2023 Blackhawk Acquisition
Purchase price of purchase credit deteriorated loans at acquisition	\$ 115,250
Allowance for credit losses at acquisition	(3,791)
Non-credit discount/(premium) at acquisition	(5,476)
Fair value of purchased credit deteriorated loans at acquisition	\$ 105,983

Note 5 -- Goodwill and Intangible Assets

The Company has goodwill from business combinations, intangible assets from branch acquisitions, identifiable intangible assets assigned to core deposit relationships and customer lists of First Mid Wealth Management Company and First Mid Insurance. The following table presents gross carrying value and accumulated amortization by major intangible asset class as of June 30, 2024 and December 31, 2023 (in thousands):

	June 30, 2024		December 31, 2023	
	Gross Carrying Value	Accumulated Amortization	Gross Carrying Value	Accumulated Amortization
Goodwill not subject to amortization	\$ 200,221	\$ 3,760	\$ 200,221	\$ 3,760
Intangibles from branch acquisition	3,015	3,015	3,015	3,015
Core deposit intangibles	79,945	39,995	79,945	34,966
Other intangibles	26,552	11,776	26,552	10,620
	<u>\$ 309,733</u>	<u>\$ 58,546</u>	<u>\$ 309,733</u>	<u>\$ 52,361</u>

Goodwill of \$50.1 million was recorded for the acquisition and merger of Blackhawk Bancorp, Inc. during the third quarter of 2023. All of the goodwill was assigned to the banking division of the Company. The goodwill will not be deductible for tax purposes.

The following table provides a reconciliation of the purchase price paid for the acquisition of Blackhawk and the amount of goodwill recorded (in thousands):

Unallocated purchase price	\$ 26,955
Less purchase accounting adjustments:	
Fair value of securities	\$ (25,521)
Fair value of loans, net	(43,477)
Fair value of premises and equipment	(3,856)
Fair value of time deposits	2,311
Fair value of subordinated and jr subordinated debentures	3,707
Increase in core deposit intangible	33,731
Increase in mortgage servicing rights	3,344
Other assets	6,619
	<u>(23,142)</u>
	<u>\$ 50,097</u>

During the quarter ended June 30, 2023, goodwill of \$6 million was recorded for the acquisition of the stock of Purdum, Gray, Ingledue, Beck, Inc., in connection with its insurance business. First Mid Insurance was assigned all this goodwill. The following provides a reconciliation of the purchase price paid for Purdum, Gray, Ingledue, Beck, Inc. and the amount of goodwill recorded (in thousands):

Unallocated purchase price	\$ 10,145
Less purchase accounting adjustments:	
Insurance Company intangible	\$ 5,770
Other liabilities	(1,576)
	<u>4,194</u>
	<u>\$ 5,951</u>

The Company has mortgage servicing rights acquired in previous acquisitions. The following table summarizes the activity pertaining to mortgage servicing rights included in intangible assets as of June 30, 2024, June 30, 2023 and December 31, 2023 (in thousands):

	June 30, 2024	June 30, 2023	December 31, 2023
Beginning balance	\$ 6,859	\$ 331	\$ 331
Mortgage servicing rights acquired during period	—	—	7,070
Adjustment to valuation reserve	(13)	—	(8)
Mortgage servicing rights amortized	(652)	(28)	(524)
Interest only strip	(4)	(4)	(10)
Ending balance	<u>\$ 6,190</u>	<u>\$ 299</u>	<u>\$ 6,859</u>

Total amortization expense for three and six months ended June 30, 2024 and 2023 was as follows (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2024	2023	2024	2023
Core deposit intangibles	\$ 2,475	\$ 1,010	\$ 5,029	\$ 2,059
Customer list intangibles	577	456	1,156	912
Mortgage servicing rights	288	11	652	28
	<u>\$ 3,340</u>	<u>\$ 1,477</u>	<u>\$ 6,837</u>	<u>\$ 2,999</u>

Aggregate amortization expense for the current year and estimated amortization expense for each of the five succeeding years is shown in the table below (in thousands):

Aggregate amortization expense:		
For period 01/01/24 - 06/30/24		\$ 6,837
Estimated amortization expense:		
For period 07/01/24 - 12/31/24		6,472
For year ended 12/31/25		11,989
For year ended 12/31/26		10,402
For year ended 12/31/27		9,182
For year ended 12/31/28		8,014

In accordance with the provisions of SFAS No. 142, “*Goodwill and Other Intangible Assets*,” codified within ASC 350, the Company performed testing of goodwill for impairment as of May 31, 2023 and determined that, as of that date, goodwill was not impaired. Management also concluded that the remaining amounts and amortization periods were appropriate for all intangible assets.

Note 6 -- Repurchase Agreements and Other Borrowings

Securities sold under agreements to repurchase were \$206.0 million at June 30, 2024, an decrease of \$7.8 million from \$213.7 million at December 31, 2023. All the transactions have overnight maturities with a weighted average rate of 3.14%.

The right of setoff for a repurchase agreement resembles a secured borrowing, whereby the collateral pledged by the Company would be used to settle the fair value of the repurchase agreement should the Company be in default (e.g., declare bankruptcy), the Company could cancel the repurchase agreement (i.e., cease payment of principal and interest), and attempt collection on the amount of collateral value in excess of the repurchase agreement fair value. The collateral is held by a third-party financial institution in the counterparty's custodial account. The counterparty has the right to sell or repledge the investment securities. For government entity repurchase agreements, the collateral is held by the Company in a segregated custodial account under a tri-party agreement. The Company is required by the counterparty to maintain adequate collateral levels. In the event the collateral fair value falls below stipulated levels, the Company will pledge additional securities. The Company closely monitors collateral levels to ensure adequate levels are maintained, while mitigating the potential of over-collateralization in the event of counterparty default.

Collateral pledged by class for repurchase agreements are as follows (in thousands):

	June 30, 2024	December 31, 2023
US Treasury securities and obligations of U.S. government corporations and agencies	\$ 60,711	\$ 46,544
Mortgage-backed securities: GSE: residential	145,244	167,177
Total	\$ 205,955	\$ 213,721

Gross FHLB borrowings, were \$263.6 million and \$263.6 million at June 30, 2024 and December 31, 2023, respectively. At June 30, 2024 the advances were as follows:

Advance	Term (in years)	Interest Rate	Maturity Date
25,000,000	2.0	4.59%	November 8, 2024
10,000,000	5.0	1.45%	December 31, 2024
5,000,000	5.0	0.91%	March 10, 2025
3,605,826	10.0	2.64%	December 23, 2025
25,000,000	3.0	4.40%	June 15, 2026
25,000,000	3.0	4.37%	May 10, 2027
25,000,000	3.0	4.32%	May 17, 2027
50,000,000	4.0	3.49%	December 8, 2027
25,000,000	5.0	3.82%	June 29, 2028
25,000,000	5.0	3.95%	June 29, 2028
25,000,000	5.0	3.93%	June 27, 2029
5,000,000	10.0	1.15%	October 3, 2029
5,000,000	10.0	1.12%	October 3, 2029
10,000,000	10.0	1.39%	December 31, 2029

Note 7 -- Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or comparable assets or liabilities which use observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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

Available-for-Sale Securities. The fair value of available-for-sale securities is determined by various valuation methodologies. Where quoted market prices are available in an active market, securities are classified within Level 1. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independent sources of market parameters, including but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

Fair value determinations for Level 3 measurements of securities are the responsibility of the Treasury function of the Company. The Company contracts with a pricing specialist to generate fair value estimates on a monthly basis. The Treasury function of the Company challenges the reasonableness of the assumptions used and reviews the methodology to ensure the estimated fair value complies with accounting standards generally accepted in the United States, analyzes the changes in fair value and compares these changes to internally developed expectations and monitors these changes for appropriateness.

Loans Held for Sale. The fair value of loans held for sale is based on independent asset pricing services which use observable market data as of the measurement date and are therefore classified in Level 2 of the valuation hierarchy.

Derivatives. The fair value of derivatives is based on models using observable market data as of the measurement date and are therefore classified in Level 2 of the valuation hierarchy.

The following table presents the Company's assets and liabilities that are measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall as of June 30, 2024 and December 31, 2023 (in thousands):

	Fair Value	Fair Value Measurements Using			
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
June 30, 2024					
Available-for-sale securities:					
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 199,582	\$ —	\$ 199,582	\$ —	
Obligations of states and political subdivisions	277,066	—	277,066	—	
Mortgage-backed securities	571,054	—	571,054	—	
Other securities	62,948	—	56,982	5,966	
Total available-for-sale securities	1,110,650	—	1,104,684	5,966	
Equity securities	4,258	4,258	—	—	
Loans held for sale	7,764	—	7,764	—	
Derivative assets: interest rate swaps	3,454	—	3,454	—	
Total assets	\$ 1,126,126	\$ 4,258	\$ 1,115,902	\$ 5,966	
Derivative liabilities: interest rate swaps	\$ 2,331	\$ —	\$ 2,331	\$ —	
December 31, 2023					
Available-for-sale securities:					
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 211,656	\$ —	\$ 211,656	\$ —	
Obligations of states and political subdivisions	288,616	—	288,616	—	
Mortgage-backed securities	602,300	—	602,300	—	
Other securities	69,000	—	62,837	6,163	
Total available-for-sale securities	1,171,572	—	1,165,409	6,163	
Equity securities	4,074	4,074	—	—	
Loans held for sale	4,980	—	4,980	—	
Derivative assets: interest rate swaps	3,166	—	3,166	—	
Total assets	\$ 1,183,792	\$ 4,074	\$ 1,173,555	\$ 6,163	
Derivative liabilities: interest swaps	\$ 2,217	\$ —	\$ 2,217	\$ —	

The change in fair value of assets measured on a recurring basis using significant unobservable inputs (Level 3) for the three and six months ended June 30, 2024 and 2023 is summarized as follows (in thousands):

	Three months ended June 30, 2024			Six months ended June 30, 2024		
	Obligation of State and Political Subdivisions	Other	Total	Obligation of State and Political Subdivisions	Other	Total
Beginning balance	\$ —	\$ 5,965	\$ 5,965	\$ —	\$ 6,163	\$ 6,163
Transfers into Level 3	—	1	1	—	2	2
Maturities	—	—	—	—	(199)	(199)
Ending balance	\$ —	\$ 5,966	\$ 5,966	\$ —	\$ 5,966	\$ 5,966

	Three months ended June 30, 2023			Six months ended June 30, 2023		
	Obligation of State and Political Subdivisions	Other	Total	Obligation of State and Political Subdivisions	Other	Total
Beginning balance	\$ —	\$ 10,010	\$ 10,010	\$ —	\$ 10,000	\$ 10,000
Transfers into Level 3	—	—	—	—	10	10
Transfers out of Level 3	—	(4,250)	(4,250)	—	(4,250)	(4,250)
Ending balance	\$ —	\$ 5,760	\$ 5,760	\$ —	\$ 5,760	\$ 5,760

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

Collateral Dependent Loans. Loans for which it is probable that the Company will not collect all principal and interest due according to contractual terms are measured for impairment. Allowable methods for determining the amount of impairment and estimating fair value include using the 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, which includes selling costs. Individually evaluated loans that are collateral dependent are classified within Level 3 of the fair value hierarchy when impairment is determined using the fair value method.

Management establishes a specific allowance for individually evaluated loans that have an estimated fair value that is below the carrying value. The total carrying amount of loans for which a change in specific allowance has occurred as of June 30, 2024 was \$899,000 and a fair value of \$597,000 resulting in specific loss exposures of \$302,000.

When there is little prospect of collecting principal or interest, loans, or portions of loans, may be charged-off to the allowance for credit losses. Losses are recognized in the period an obligation becomes uncollectible. The recognition of a loss does not mean that the loan has absolutely no recovery or salvage value, but rather that it is not practical or desirable to defer writing off the loan even though partial recovery may be affected in the future.

Foreclosed Assets Held For Sale. Other real estate owned acquired through loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. The adjustment at the time of foreclosure is recorded through the allowance for credit losses. Due to the subjective nature of establishing the fair value when the asset is acquired, the actual fair value of the other real estate owned, or foreclosed asset could differ from the original estimate. If it is determined that fair value declines subsequent to foreclosure, a valuation allowance is recorded through noninterest expense. Operating costs associated with the assets after acquisition are also recorded as noninterest expense. Gains and losses on the disposition of other real estate owned and foreclosed assets are netted and posted to other noninterest expense. The total carrying amount of other real estate owned as of June 30, 2024 was \$1.5 million. Other real estate owned included in the total carrying amount and measured at fair value on a nonrecurring basis during the period amounted to \$0.

The following table presents the fair value measurement of assets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2024 and December 31, 2023 (in thousands):

			Fair Value Measurements Using				
	Fair Value		Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
June 30, 2024							
Collateral dependent loans	\$	597	\$	—	\$	—	\$ 597
Foreclosed assets held for sale		—		—	—	—	—
December 31, 2023							
Collateral dependent loans	\$	1,028	\$	—	\$	—	\$ 1,028
Foreclosed assets held for sale		24		—	—	—	24

Sensitivity of Significant Unobservable Inputs

The following table presents quantitative information about unobservable inputs used in Level 3 fair value measurements other than goodwill at June 30, 2024 and December 31, 2023.

June 30, 2024	Fair Value	Valuation Technique	Unobservable Inputs	Range	Weighted Average
Collateral dependent loans	\$597	Third party valuations	Discount to reflect realizable value less estimated selling costs	0% - 40%	20%
Foreclosed assets held for sale	—	Third party valuations	Discount to reflect realizable value less estimated selling costs	0% - 40%	—%
December 31, 2023	Fair Value	Valuation Technique	Unobservable Inputs	Range	Weighted Average
Collateral dependent loans	\$ 1,028	Third party valuations	Discount to reflect realizable value	0% - 40%	20%
Foreclosed assets held for sale	24	Third party valuations	Discount to reflect realizable value less estimated selling costs	0% - 40%	35%

The following tables present estimated fair values of the Company's financial instruments at June 30, 2024 and December 31, 2023 in accordance with ASC 825 (in thousands):

	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
June 30, 2024					
Financial assets					
Cash and due from banks	\$ 235,454	\$ 235,454	\$ 235,454	\$ —	\$ —
Federal funds sold	26	26	26	—	—
Certificates of deposit investments	3,745	3,745	—	3,745	—
Available-for-sale securities	1,110,650	1,110,650	—	1,104,684	5,966
Held-to-maturity securities	2,277	2,277	2,277	—	—
Equity securities	4,258	4,258	4,258	—	—
Loans held for sale	7,764	7,764	—	7,764	—
Loans net of allowance for credit losses	5,484,541	5,143,497	—	—	5,143,497
Interest receivable	37,326	37,326	—	37,326	—
Federal Reserve Bank stock	19,855	19,855	—	19,855	—
Federal Home Loan Bank stock	9,555	9,555	—	9,555	—
Financial liabilities					
Deposits	\$ 6,115,779	\$ 6,039,637	\$ —	\$ 5,104,409	\$ 935,228
Securities sold under agreements to repurchase	205,955	205,955	—	205,955	—
Interest payable	5,415	5,415	—	5,415	—
Federal Home Loan Bank borrowings	263,735	260,047	—	260,047	—
Subordinated debt, net	103,029	102,543	—	102,543	—
Junior subordinated debentures, net	24,169	21,295	—	21,295	—
December 31, 2023					
Financial assets					
Cash and due from banks	\$ 134,082	\$ 134,082	\$ 134,082	\$ —	\$ —
Federal funds sold	8,982	8,982	8,982	—	—
Certificates of deposit investments	1,470	1,470	—	1,470	—
Available-for-sale securities	1,171,572	1,171,572	—	1,165,409	6,163
Held-to-maturity securities	2,286	2,286	2,286	—	—
Equity securities	4,074	4,074	4,074	—	—
Loans held for sale	4,980	4,980	—	4,980	—
Loans net of allowance for credit losses	5,506,910	5,235,525	—	—	5,235,525
Interest receivable	35,082	35,082	—	35,082	—
Federal Reserve Bank stock	19,855	19,855	—	19,855	—
Federal Home Loan Bank stock	9,758	9,758	—	9,758	—
Financial liabilities					
Deposits	\$ 6,123,659	\$ 6,042,277	\$ —	\$ 5,076,066	\$ 966,211
Securities sold under agreements to repurchase	213,721	213,714	—	213,714	—
Interest payable	5,437	5,437	—	5,437	—
Federal Home Loan Bank borrowings	263,787	261,206	—	261,206	—
Subordinated debentures	106,755	102,018	—	102,018	—
Junior subordinated debentures	24,058	21,524	—	21,524	—

Note 8 – Business Combinations

Blackhawk Bancorp, Inc.

On August 15, 2023, the Company completed its acquisition of Blackhawk Bancorp, Inc. ("Blackhawk") pursuant to an Agreement and Plan of Merger Agreement, dated March 20, 2023 (the "Agreement"). Pursuant to the Agreement, Blackhawk was merged with and into the Company. Blackhawk shareholders received 1.15 shares of the Company's common stock for each share of Blackhawk common stock.

The Company accounted for the Blackhawk acquisition as a business combination using the acquisition method of accounting in accordance with ASC 805, Business Combinations ("ASC 805"). ASC 805 requires assets purchased and liabilities assumed to be recorded at their respective fair values at the date of acquisition. The Company determined the fair value of loans, core deposit

intangibles, mortgage servicing rights, time deposits, real property, and subordinated debt with the assistance of third-party valuations and appraisals.

A preliminary summary of the fair value of assets received and liabilities assumed are as follows:

(In thousands)	
Assets	
Cash and due from banks	\$ 55,600
Loans held for sale	3,222
Loans, net	722,866
Investments-available for sale	377,969
Short-term investments	869
FHLB stock	1,737
Premises and equipment	12,366
Accrued interest receivable	4,029
Prepaid expenses	1,182
Other assets	20,742
Core deposit intangible	34,590
Income tax receivable	2,077
Deferred tax asset	22,152
Mortgage servicing rights	7,031
Total assets acquired	\$ 1,266,432
Liabilities	
Deposits	\$ 1,194,972
Subordinated and Junior Subordinated debt	16,448
Accrued interest payable	1,091
Accrued and other liabilities	10,508
Total liabilities assumed	1,223,019
Net assets acquired	\$ 43,413
Total consideration	\$ 93,510
Goodwill	\$ 50,097

The following table presents a summary of consideration transferred:

(In thousands, except shares)	
Common stock issued (3,290,222 shares)	\$ 93,508
Cash consideration	2
Purchase price	\$ 93,510

The Company recorded \$50.1 million of goodwill in connection with the acquisition of Blackhawk, none of which is deductible for tax purposes. The amount of goodwill recorded reflects the synergies and operational efficiencies that are expected to result from the acquisition. The descriptions below describe the methods used to determine the fair value of significant assets acquired and liabilities assumed, as presented above:

Loans, net. The fair value of the loan portfolio was calculated on an individual loan basis using a discounted cash flow analysis, with results presented and assumptions applied on a summary basis. This analysis took into consideration the contractual terms of the loans and assumptions related to the cost of debt, cost of equity, servicing cost and other liquidity/risk premium considerations to estimate the projected cash flows. The inputs and assumptions used in the fair value estimate of the loan portfolio include credit mark, discount rate, prepayment speed, and foreclosure lag. Cash flows were adjusted by estimating future credit losses and the rate of prepayments. Projected monthly cash flows were then discounted to present value using a risk-adjusted market rate for similar loans.

Core deposit intangible. The Company identified customer relationships, in the form of core deposit intangibles, as an identified intangible asset. Core deposit intangibles derive value from the expected future benefits or earnings capacity attributable to the acquired core deposits. The fair value of the core deposit intangible was estimated by identifying the expected future benefits of the core deposits and discounting those benefits back to present value. The core deposit intangible will be amortized over its estimated useful life of approximately 10 years using the sum of the months digits accelerated method.

Mortgage servicing rights. The Company identified residential mortgage servicing rights intangible asset and determined the fair value using a discounted cash flow analysis. The key inputs and assumptions used in the fair value estimate include prepayment assumptions, servicing costs, delinquencies, foreclosure costs, ancillary income, income earned on float & escrow, interest on escrow, internal rate of return and inflation.

Deposits. The fair value of demand deposit and interest checking deposit accounts was assumed to approximate the carrying value as these accounts have no stated maturity and are payable on demand. The fair value of time deposits was estimated by discounting the contractual future cash flows using market rates offered for time deposits of similar remaining maturities.

Subordinated and Junior Subordinated debt. The Subordinated and Junior Subordinated debt was fair valued using an income approach. Cash flows were calculated using an annualized contractual rate adjusted for forward interest costs and discounted using a variable discount rate.

Accounting for acquired loans. Loans acquired are recorded at fair value with no carryover of the related allowance for credit losses. Purchased-credit deteriorated loans ("PCD") are loans that have experienced more than insignificant credit deterioration since origination and are recorded at the purchase price. The allowance for credit losses is determined at the loan level. The sum of the loan's purchase price and the 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 a noncredit discount or premium, which is amortized into interest income over the life of the loan.

Non-PCD loans have not experienced a more than insignificant deterioration in credit quality since origination. The difference between the fair value and outstanding balance of the non-PCD loans is recognized as an adjustment to interest income over the lives of the loan.

In accordance with ASC 326, *Financial Instruments – Credit Losses*, immediately following the acquisition the Company established a \$3.8 million allowance for credit losses on the \$618.33 million of acquired non-PCD loans through provision for credit losses in the consolidated statement of operations.

The following table provides a summary of PCD loans purchased as part of the Blackhawk acquisition as of the acquisition date:

(In thousands)			
Unpaid principal balance		\$	115,250
PCD allowance for credit losses at acquisition			(3,791)
Non-credit discount on acquired loans			(5,476)
Fair value of PCD loans		\$	105,983

The following unaudited pro forma condensed combined financial information presents the results of operations of the Company, including the effects of the purchase accounting adjustments and acquisition expenses, had the Blackhawk Merger taken place at the beginning of the period (dollars in thousands, except per share data):

		Three months ended June 30, 2023		Six months ended June 30, 2023
Net interest income	\$	42,367	\$	56,502
Provision for credit losses		458		924
Non-interest income		19,486		23,024
Non-interest expense		40,042		53,785
Income before taxes		21,353		24,817
Income tax expense		4,786		5,641
Net income	\$	16,567	\$	19,176
Earnings per share				
Basic	\$	0.81	\$	0.81
Diluted	\$	0.80	\$	0.80
Basic weighted average shares o/s		20,528,717		23,818,939
Diluted weighted average shares o/s		20,628,239		23,918,461

Acquisition costs are expensed as incurred as a component of non-interest expense and primarily include, but are not limited to, severance costs, professional services, data processing fees, and marketing and advertising expenses. The Company incurred acquisition costs related to the Blackhawk acquisition, pre-tax, of \$2.38 million and \$561,000, respectively, during the six months ended June 30, 2024 and June 30, 2023 and \$175,000 and \$468,000, respectively, during the three months ended June 30, 2024 and June 30, 2023.

Note 9 -- Leases

Effective January 1, 2019, the Company adopted ASU 2016-02, Leases (Topic 842). As of June 30, 2024, substantially all the Company's leases are operating leases for real estate property for bank branches, ATM locations, and office space.

These leases are generally for periods of 1 to 25 years with various renewal options. The Company elected the optional transition method permitted by Topic 842. Under this method, the Company recognizes and measures leases that exist at the application date and prior comparative periods are not adjusted. In addition, the Company elected the package of practical expedients:

1. An entity need not reassess whether any expired or existing contracts contain leases.
2. An entity need not reassess the lease classification for any expired or existing leases.
3. An entity need not reassess initial direct costs for any existing leases.

The Company has also elected the practical expedient, which may be elected separately or in conjunction with the package noted above, to use hindsight in determining the lease term and in assessing the right-of-use assets. This expedient must be applied consistently to all leases. Lastly, the Company has elected to use the practical expedient to include both lease and non-lease components as a single component and account for it as a lease. In addition, the Company has elected to not include short-term leases (i.e. leases with terms of twelve months or less) or equipment leases (primarily copiers) deemed immaterial, on the consolidated balance sheets.

For leases in effect at January 1, 2019 and for leases commencing thereafter, the Company recognizes a lease liability and a right-of-use asset, based on the present value of lease payments over the lease term. The discount rate used in determining present value was the Company's incremental borrowing rate which is the FHLB fixed advance rate based on the remaining lease term as of January 1, 2019, or the commencement date for leases subsequently entered into.

The following table contains supplemental balance sheet information related to leases (dollars in thousands):

	June 30, 2024	June 30, 2023	December 31, 2023
Operating lease right-of-use assets	\$ 14,981	\$ 14,895	\$ 14,306
Operating lease liabilities	15,286	15,176	14,615
Weighted-average remaining lease term (in years)	5.0	5.3	4.9
Weighted-average discount rate	3.20 %	2.57 %	3.21 %

Certain of the Company's leases contain options to renew the lease; however, not all renewal options are included in the calculation of lease liabilities as they are not reasonably certain to be exercised. The Company's leases do not contain residual value guarantees or material variable lease payments. The Company does not have any other material restrictions or covenants imposed by leases that would impact the Company's ability to pay dividends or cause the Company to incur additional financial obligations.

Maturities of lease liabilities are as follows (in thousands):

Year ending December 31,			
2024		\$ 1,851	
2025		2,980	
2026		2,812	
2027		2,598	
2028		2,015	
Thereafter		4,887	
Total lease payments		17,143	
Less imputed interest		(1,857)	
Total lease liability		\$ 15,286	

The components of lease expense for the three and six months ended June 30, 2024 and 2023 were as follows (in thousands):

	Three months ended			Six months ended		
	June 30,		2024	June 30,		2023
	2024	2023		2024	2023	
Operating lease cost	\$ 822	\$ 825	\$ 1,668	\$ 1,578		
Short-term lease cost	31	(3)	66	27		
Variable lease cost	218	191	356	414		
Total lease cost	1,071	1,013	2,090	2,019		
Income from subleases	(103)	(93)	(207)	(187)		
Net lease cost	\$ 968	\$ 920	\$ 1,883	\$ 1,832		

As the Company elected not to separate lease and non-lease components, the variable lease cost primarily represents variable payment such as common area maintenance and copier expense. The Company does not have any material sub-lease agreements. Cash paid for amounts included in the measurement of lease liabilities was (in thousands):

	June 30, 2024	June 30, 2023
Operating cash flows from operating leases	\$ 1,672	\$ 1,577

Note 10 – Derivatives

The Company utilizes an interest rate swap, designated as a fair value hedge, to mitigate the risk of changing interest rates on the fair value of a fixed rate commercial real estate loan. For derivative instruments that are designed and qualify as a fair value hedge, the gain or loss on the derivative instrument, as well as the offsetting loss or gain in the hedged asset attributable to the hedged risk, is recognized in current earnings.

Derivatives Designated as Hedging Instruments

The following table provides the outstanding notional balances and fair values of outstanding derivatives designated as hedging instruments as of June 30, 2024 and December 31, 2023 (in thousands):

	Balance Sheet Location	Weighted Average Remaining Maturity (Years)	Notional Amount	Estimated Value
June 30, 2024				
Fair value hedges:				
Interest rate swap agreements	Other liabilities	4.8	\$ 12,728	\$ (2,331)
December 31, 2023				
Fair value hedges:				
Interest rate swap agreements	Other liabilities	5.3	\$ 12,976	\$ (2,217)

The effects of the fair value hedges on the Company's income statement during the three and six months ended June 30, 2024 and 2023 were as follows (in thousands):

Derivative	Location of Gain (Loss) on Derivatives	Three months ended			Six months ended		
		2024	2023	2024	2023		
Interest rate swap agreements	Interest income on loans	\$ 20	\$ 363	\$ 174	\$ 38		
Derivative							
Interest rate swap agreements	Location of Gain (Loss) on Hedged Items		Three months ended			Six months ended	
	Interest income on loans	\$ (20)	\$ (363)	\$ (174)	\$ (38)	2024	2023

As of June 30, 2024, the following amounts were recorded on the consolidated balance sheet related to cumulative basis adjustment for fair value hedges (in thousands):

Line Item in the Balance Sheet in Which the Hedge Item is Included	Carrying Amount of the Hedged Asset	Cumulative Amount of Fair Value Hedging Adjustment Included in the Carrying Amount of the Hedged Asset
Loans	\$ 11,605	\$ (1,124)

Derivatives Not Designated as Hedging Instruments

The following amounts represent the notional amounts and gross fair value of derivative contracts not designated as hedging instruments outstanding during the six months ended June 30, 2024 (dollars in thousands):

June 30, 2024	Balance Sheet Location	Weighted Average Remaining Maturity (Years)	Notional Amount	Estimated Value
Interest rate swap agreements	Other assets	4.5	\$ 29,862	\$ 3,454
Interest rate swap agreements	Other liabilities	4.5	29,862	(3,454)

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

The following discussion and analysis is intended to provide a better understanding of the consolidated financial condition and results of operations of the Company and its subsidiaries as of, and for the three and six months ended June 30, 2024 and 2023. This discussion and analysis should be read in conjunction with the consolidated financial statements, related notes and selected financial data appearing elsewhere in this report.

Forward-Looking Statements

This document may contain certain forward-looking statements about First Mid, such as discussions of First Mid's pricing and fee trends, credit quality and outlook, liquidity, new business results, expansion plans, anticipated expenses and planned schedules. First Mid intends such 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. Forward-looking statements, which are based on certain assumptions and describe future plans, strategies and expectations of First Mid, are identified by use of the words "believe," "expect," "intend," "anticipate," "estimate," "project," or similar expressions. Actual results could differ materially from the results indicated by these statements because the realization of those results is subject to many risks and uncertainties, including, among other things, the possibility that any of the anticipated benefits of the merger between First Mid and Blackhawk will not be realized or will not be realized within the expected time period; changes in interest rates; general economic conditions and those in the market areas of First Mid; legislative and/or regulatory changes; monetary and fiscal policies of the U.S. Government, including policies of the U.S. Treasury and the Federal Reserve Board; the quality or composition of First Mid's loan or investment portfolios and the valuation of those investment portfolios; demand for loan products; deposit flows; competition, demand for financial services in the market areas of First Mid; accounting principles, policies and guidelines. Additional information concerning First Mid, including additional factors and risks that could materially affect First Mid's financial results, are included in First Mid's filings with the SEC, including its Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q. Forward-looking statements speak only as of the date they are made. Except as required under the federal securities laws or the rules and regulations of the SEC, we do not undertake any obligation to update or review any forward-looking information, whether as a result of new information, future events or otherwise.

Overview

This overview of management's discussion and analysis highlights selected information in this document and may not contain all the information that is important to you. For a more complete understanding of trends, events, commitments, uncertainties, liquidity, capital resources, and critical accounting estimates which have an impact on the Company's financial condition and results of operations you should carefully read this entire document.

Net income was \$40.2 million and \$35.7 million for the six months ended June 30, 2024 and 2023, respectively. Diluted net income per common share was \$1.68 and \$1.74 for the six months ended June 30, 2024 and 2023, respectively.

The following table shows the Company's annualized performance ratios for six months ended June 30, 2024 and 2023, compared to

the performance ratios for the year ended December 31, 2023:

	Six months ended	Year ended
	June 30, 2024	December 31, 2023
Return on average assets	1.06 %	1.07 %
Return on average common equity	10.14 %	11.07 %
Average equity to average assets	10.44 %	9.66 %

Total assets were \$7.6 billion at June 30, 2024, compared to \$7.6 billion as of December 31, 2023. From December 31, 2023 to June 30, 2024, cash and cash equivalents increased \$92.4 million, net loan balances decreased \$22.4 million and investment securities decreased \$60.7 million. Net loan balances were \$5.48 billion at June 30, 2024 compared to \$5.51 billion at December 31, 2023.

Net interest margin, on a tax equivalent basis, defined as net interest income divided by average interest-earning assets, was 3.30% for the six months ended June 30, 2024, up from 2.89% for the same period in 2023. This increase was primarily due to an increase in earning asset yields partially offset by increased rates on interest-bearing deposits and borrowings. Net interest income before the provision for loan losses was \$112.2 million compared to net interest income of \$85.6 million for the same period in 2023. The increase in net interest income was primarily due to the acquisition of Blackhawk Bank during the third quarter of 2023 and increased net interest margin as mentioned above.

Total non-interest income of \$46.9 million increased \$4.9 million or 11.8% from \$42.0 million for the same period last year. The increase in non-interest income resulted primarily from an increase in insurance commissions and income generated from former Blackhawk Bank customers partially offset by a decrease in wealth management revenues, bank owned life insurance income, and miscellaneous income.

Total non-interest expense of \$104.8 million increased \$23.2 million or 28.4% from \$81.6 million for the same period last year. The increase was primarily due to the acquisition of Blackhawk Bank during the third quarter of 2023 and the related amortization of intangibles and increased size of the bank causing increased expenses.

Following is a summary of the factors that contributed to the changes in net income (in thousands):

	Change in Net Income		2024 versus 2023	
	2024 versus 2023			
	Three months ended	Six months ended		
	June 30, 2024	June 30, 2024		
Net interest income	\$ 14,398	\$ 26,677		
Provision for credit losses	(625)	(1,085)		
Other income, including securities transactions	2,936	4,935		
Other expenses	(11,349)	(23,134)		
Income taxes	(2,182)	(2,892)		
Increase in net income	<u>\$ 3,178</u>	<u>\$ 4,501</u>		

Credit quality is an area of importance to the Company. Total nonperforming loans were \$19.1 million at June 30, 2024, compared to \$18.6 million at June 30, 2023 and \$20.1 million at December 31, 2023. See the discussion under the heading "Loan Quality and Allowance for Loan Losses" for a detailed explanation of these balances. Repossessed asset balances totaled \$1.5 million at June 30, 2024 compared to \$4.0 million at June 30, 2023 and \$1.2 million at December 31, 2023.

The Company's provision for credit losses for the six months ended June 30, 2024 and 2023 was \$726,000 and (\$359,000), respectively. Total loans past due 30 days or more were 0.42% of loans at June 30, 2024 compared to 0.22% at June 30, 2023, and 0.26% of loans at December 31, 2023. Loans secured by both commercial and residential real estate comprised approximately 69.0% of the loan portfolio as of June 30, 2024 and 68.9% as of December 31, 2023.

The Company's capital position remains strong, and the Company has consistently maintained regulatory capital ratios above the "well-capitalized" standards. The Company's Tier 1 capital to risk weighted assets ratio calculated under the regulatory risk-based capital requirements at June 30, 2024 and 2023 and December 31, 2023 was 12.65%, 12.82% and 12.02%, respectively. The Company's total capital to risk weighted assets ratio calculated under the regulatory risk-based capital requirements at June 30, 2024 and 2023, and December 31, 2023 was 15.46%, 15.67% and 14.84%, respectively. The increase in Tier 1 capital and total to risk weighted assets ratio from December 31, 2023 was primarily due to net income less dividends declared for the period increasing equity and a decrease in risk weighted assets related to a reallocation of the Company's balance sheet resulting in lower risk weighted assets such as cash on hand significantly increasing.

On March 27, 2020, the federal banking regulatory agencies, issued an interim final rule which provided an option to delay the estimated impact on regulatory capital of ASU 2016-13, which was effective January 1, 2020. The initial impact of adoption of ASU 2016-13, as well as 25% of the quarterly increases in the allowance for credit losses subsequent to adoption of ASU 2016-13 ("CECL adjustments"), was to be delayed for two years. The cumulative amount of these adjustments is being phased out of the regulatory capital calculation over a three-year period, with 75% of the adjustments included in 2022, 50% of the adjustments included in 2023 and 25% of the adjustments included in 2024. After five years, the temporary delay of ASU 2016-13 adoption will be fully reversed. The Company has elected this option.

The Company's liquidity position remains sufficient to fund operations and meet the requirements of borrowers, depositors, and creditors. The Company maintains various sources of liquidity to fund its cash needs. See the discussion under the heading "Liquidity" for a full listing of sources and anticipated significant contractual obligations.

The Company enters into financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include lines of credit, letters of credit and other commitments to extend credit. The total outstanding commitments at June 30, 2024 and 2023, were \$1.3 billion and \$1.2 billion, respectively.

Federal Deposit Insurance Corporation Insurance Coverage. As FDIC-insured institutions, First Mid Bank is required to pay deposit insurance premium assessments to the FDIC. Several requirements with respect to the FDIC insurance system have affected results, including insurance assessment rates.

The Company expensed \$1,771,000 and \$1,539,000 for the assessment during the first six months of 2024 and 2023, respectively.

Critical Accounting Policies and Use of Significant Estimates

The Company has established various accounting policies that govern the application of U.S. generally accepted accounting principles in the preparation of the Company's consolidated financial statements. The significant accounting policies of the Company are described in the footnotes to the consolidated financial statements included in the Company's 2023 Annual Report on Form 10-K. Certain accounting policies involve significant judgments and assumptions by management that have a material impact on the carrying value of certain assets and liabilities; management considers such accounting policies to be critical accounting policies. The judgments and assumptions used by management are based on historical experience and other factors, which are believed to be reasonable under the circumstances. Because of the nature of the judgments and assumptions made by management, actual results could differ from these judgments and assumptions, which could have a material impact on the carrying values of assets and liabilities and the results of operations of the Company.

Investment in Debt and Equity Securities. The Company classifies its investments in debt and equity securities as either held-to-maturity or available-for-sale in accordance with Statement of Financial Accounting Standards (SFAS) No. 115, *"Accounting for Certain Investments in Debt and Equity Securities,"* which was codified into ASC 320. Securities classified as held-to-maturity are recorded at amortized cost. Available-for-sale securities are carried at fair value. Fair value calculations are based on quoted market prices when such prices are available. If quoted market prices are not available, estimates of fair value are computed using a variety of techniques, including extrapolation from the quoted prices of similar instruments or recent trades for thinly traded securities, fundamental analysis, or through obtaining purchase quotes. Due to the subjective nature of the valuation process, it is possible that the actual fair values of these investments could differ from the estimated amounts, thereby affecting the financial position, results of operations and cash flows of the Company.

If the estimated value of investments is less than the cost or amortized cost, the Company evaluates whether an event or change in circumstances has occurred that may have a significant adverse effect on the fair value of the investment. If such an event or change has occurred and the Company determines that the impairment is other-than-temporary, a further determination is made as to the portion of impairment that is related to credit loss. The impairment of the investment that is related to the credit loss is expensed in the period in which the event or change occurred. The remainder of the impairment is recorded in other comprehensive income (loss).

Loans. Loans are reported at amortized cost. Amortized cost is the principal balance outstanding, net of purchase discounts and premiums, fair value hedge accounting adjustments and deferred loan fees and costs. Accrued interest is reported separately and is included in interest receivable in the consolidated balance sheets.

Allowance for Credit Losses - Loans. The Company believes the allowance for credit losses for loans is the critical accounting policy that requires the most significant judgments and assumptions used in the preparation of its consolidated financial statements. The allowance for credit losses for loans represents the best estimate of losses inherent in the existing loan portfolio. An estimate of potential losses inherent in the loan portfolio are determined and an allowance for those losses is established by considering factors including historical loss rates, expected cash flows and estimated collateral values. In assessing these factors, the Company uses

relevant available information, from internal and external sources, relating to past events, current conditions and reasonable and supportable forecasts.

To determine the allowance, the loan portfolio is segmented based on similar risk characteristics. The allowance for credit losses is estimated using a discounted cash flow (DCF) methodology. The DCF projects future cash flows over the life of the loan portfolio. Probability of default (PD) and loss given default (LGD) are key components in calculating expected losses in this model. The PD is forecasted using a regression model that determines the likelihood of default with a forward-looking forecast of unemployment rates. The LGD is the percentage of defaulted loans that is ultimately charged off. The allowance is calculated as the net present value of the expected cash flows less the amortized cost basis of the loans. Prior to 2022, the allowance for credit losses was measured on a collective (pool) basis for non-individually evaluated loans with similar risk characteristics. Historical credit loss experience provided the basis for the estimate of expected credit losses. Adjustments to expected losses are made using qualitative factors for relevant to each loan segment including merger & acquisition activity, economic conditions, changes in policies, procedures & underwriting, and concentrations. In addition, a forecast, using reasonable and supportable future conditions, is prepared that is used to estimate expected changes to existing and historical conditions in the current period.

The Company estimates the appropriate level of allowance for credit losses for individually evaluated loans by evaluating them separately. A specific allowance is assigned to an impaired loan when expected cash flows or collateral are less than the carrying amount of the loan.

Allowance for Credit Losses - Off-Balance Sheet Credit Exposures. The Company estimates expected credit losses over the contractual period that the Company is exposed to credit risk via a contractual obligation to extend credit, unless the obligation is unconditionally cancellable by the Company. The allowance for credit losses on off-balance sheet credit exposures is included in other liabilities in the consolidated balance sheets.

Other Real Estate Owned. Other real estate owned acquired through loan foreclosure is initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. The adjustment at the time of foreclosure is recorded through the allowance for loan losses. Due to the subjective nature of establishing the fair value when the asset is acquired, the actual fair value of the other real estate owned or foreclosed asset could differ from the original estimate. If it is determined that fair value temporarily declines subsequent to foreclosure, a valuation allowance is recorded through noninterest expense.

Operating costs associated with the assets after acquisition are also recorded as noninterest expense. Gains and losses on the disposition of other real estate owned and foreclosed assets are netted and posted to other noninterest expense.

Mortgage Servicing Rights. The Company has elected to record mortgage servicing rights under the amortization method. Using this method, servicing rights are amortized in proportion to and over the period of estimated net servicing income. The amortized assets are assessed for impairment based on fair value at each reporting date. Impairment is determined by stratifying rights into tranches based on predominant characteristics, such as interest rate, loan type and investor type.

Impairment is recognized through a valuation reserve, to the extent that fair value is less than the carrying amount of the servicing assets. Fair value in excess of the carrying amount of servicing assets is not recognized.

Deferred Income Tax Assets/Liabilities. The Company's net deferred income tax asset arises from differences in the dates that items of income and expense enter our reported income and taxable income. Deferred tax assets and liabilities are established for these items as they arise. From an accounting standpoint, deferred tax assets are reviewed to determine if they are realizable based on the historical level of taxable income, estimates of future taxable income and the reversals of deferred tax liabilities. In most cases, the realization of the deferred tax asset is based on future profitability. If the Company were to experience net operating losses for tax purposes in a future period, the realization of deferred tax assets would be evaluated for a potential valuation reserve.

Additionally, the Company reviews its uncertain tax positions annually under FASB Interpretation No. 48 (FIN No. 48), *“Accounting for Uncertainty in Income Taxes,”* codified within ASC 740. An uncertain tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely to be recognized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded. A significant amount of judgment is applied to determine both whether the tax position meets the “more likely than not” test as well as to determine the largest amount of tax benefit that is greater than 50% likely to be recognized. Differences between the position taken by management and that of taxing authorities could result in a reduction of a tax benefit or increase to tax liability, which could adversely affect future income tax expense.

Impairment of Goodwill and Intangible Assets. Core deposit and customer relationships, which are intangible assets with a finite life, are recorded on the Company's consolidated balance sheets. These intangible assets were capitalized as a result of past acquisitions and are being amortized over their estimated useful lives of up to 15 years. Core deposit intangible assets, with finite

lives will be tested for impairment when changes in events or circumstances indicate that its carrying amount may not be recoverable. Core deposit intangible assets were tested for impairment as of May 31, 2023 as part of the goodwill impairment test and no impairment was identified.

As a result of the Company's acquisition activity, goodwill, an intangible asset with an indefinite life, is reflected on the consolidated balance sheets. Goodwill is evaluated for impairment annually, unless there are factors present that indicate a potential impairment, in which case, the goodwill impairment test is performed more frequently than annually.

Fair Value Measurements. The fair value of a financial instrument is defined as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The Company estimates the fair value of a financial instrument using a variety of valuation methods. Where financial instruments are actively traded and have quoted market prices, quoted market prices are used for fair value. When the financial instruments are not actively traded, other observable market inputs, such as quoted prices of securities with similar characteristics, may be used, if available, to determine fair value. When observable market prices do not exist, the Company estimates fair value. The Company's valuation methods consider factors such as liquidity and concentration concerns. Other factors such as model assumptions, market dislocations, and unexpected correlations can affect estimates of fair value. Imprecision in estimating these factors can impact the amount of revenue or loss recorded.

SFAS No. 157, "Fair Value Measurements", which was codified into ASC 820, establishes a framework for measuring the fair value of financial instruments that considers the attributes specific to particular assets or liabilities and establishes a three-level hierarchy for determining fair value based on the transparency of inputs to each valuation as of the fair value measurement date.

The three levels are defined as follows:

- Level 1 — quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 — inputs include quoted prices for similar assets and liabilities in active markets, quoted prices of identical or similar assets or liabilities in markets that are not active, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 — inputs that are unobservable and significant to the fair value measurement.

At the end of each quarter, the Company assesses the valuation hierarchy for each asset or liability measured. From time to time, assets or liabilities may be transferred within hierarchy levels due to changes in availability of observable market inputs to measure fair value at the measurement date. Transfers into or out of hierarchy levels are based upon the fair value at the beginning of the reporting period. A more detailed description of the fair values measured at each level of the fair value hierarchy can be found in Note 7 – Fair Value of Assets and Liabilities.

Results of Consolidated Operations

Net Interest Income

The largest source of revenue for the Company is net interest income. Net interest income represents the difference between total interest income earned on earning assets and total interest expense paid on interest-bearing liabilities. The amount of interest income is dependent upon many factors, including the volume and mix of earning assets, the general level of interest rates and the dynamics of changes in interest rates. The cost of funds necessary to support earning assets varies with the volume and mix of interest-bearing liabilities and the rates paid to attract and retain such funds.

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 presented on a full tax equivalent ("TE") basis in the table that follows. The federal statutory rate in effect of 21% for 2024 and 2023 was used. The TE analysis portrays the income tax benefits associated with the tax-exempt assets. The year-to-date net yield on interest-earning assets excluding the TE adjustments of \$1,211,000 and \$1,500,000 for 2024 and 2023, respectively were 3.25% and 2.84% at June 30, 2024 and 2023, respectively.

The Company's average balances, fully tax equivalent interest income and interest expense, and rates earned or paid for major balance sheet categories are set forth for the three and six months ended June 30, 2024 and 2023 in the following table (dollars in thousands):

	Three months ended June 30, 2024			Three months ended June 30, 2023		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Assets						
Interest-bearing deposits with other financial institutions	\$ 127,962	\$ 1,667	5.24%	\$ 35,093	\$ 456	5.21%
Federal funds sold	23	8	139.89%	8,025	98	4.90%
Certificates of deposit	3,745	43	4.62%	1,715	14	3.27%
Investment securities:						
Taxable	883,503	5,417	2.45%	950,755	5,270	2.22%
Tax-exempt (1)	271,488	2,516	3.71%	276,719	2,434	3.52%
Loans net of unearned income (TE) (2)	5,529,211	79,628	5.79%	4,777,319	58,602	4.92%
Total earning assets	6,815,932	89,279	5.27%	6,049,626	66,874	4.43%
Cash and due from banks	95,891			135,574		
Premises and equipment	101,562			89,974		
Other assets	606,493			464,899		
Allowance for credit losses	(67,929)			(58,617)		
Total assets	<u>\$ 7,551,949</u>			<u>\$ 6,681,456</u>		
Liabilities and stockholders' equity						
Interest-bearing deposits						
Demand deposits	\$ 3,021,299	\$ 17,286	2.30%	\$ 2,318,119	\$ 9,467	1.64%
Savings deposits	688,057	185	0.11%	619,426	168	0.11%
Time deposits	977,265	8,867	3.65%	983,323	6,945	2.83%
Total interest-bearing deposits	4,686,621	26,338	2.26%	3,920,868	16,580	1.70%
Securities sold under agreements to repurchase	205,711	1,615	3.16%	226,734	1,723	3.05%
FHLB advances	249,187	2,248	3.63%	486,920	4,084	3.36%
Federal funds purchased	—	—	—%	—	—	0.00%
Subordinated Debt	106,033	1,180	4.48%	94,606	988	4.19%
Junior subordinated debt	24,140	537	8.95%	19,427	390	8.05%
Total borrowings	585,071	5,580	3.84%	827,687	7,185	3.48%
Total interest-bearing liabilities	5,271,692	31,918	2.44%	4,748,555	23,765	2.01%
Non interest-bearing demand deposits	1,439,414		1.91%	1,228,395		1.59%
Other liabilities	44,595			46,163		
Stockholders' equity	796,248			658,343		
Total liabilities and equity	<u>\$ 7,551,949</u>			<u>\$ 6,681,456</u>		
Net interest income		<u>\$ 57,361</u>			<u>\$ 43,109</u>	
Net interest spread			2.83%			2.42%
Impact of non interest-bearing funds			0.53%			0.42%
TE net yield on interest-bearing assets			3.36%			2.84%

	Six months ended June 30, 2024				Six months ended June 30, 2023			
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate		
Assets								
Interest-bearing deposits with other financial institutions	\$ 150,664	\$ 4,074	5.44%	\$ 25,444	\$ 665	5.27%		
Federal funds sold	559	25	9.03%	7,890	183	4.68%		
Certificates of deposit	2,645	63	4.76%	1,752	28	3.28%		
Investment securities:								
Taxable	894,351	10,887	2.43%	954,298	10,433	2.19%		
Tax-exempt (1)	275,478	4,966	3.61%	278,796	4,920	3.53%		
Loans net of unearned income (TE) (2)	5,526,698	157,552	5.73%	4,782,757	115,071	4.85%		
Total earning assets	6,850,395	177,567	5.21%	6,050,937	131,300	4.38%		
Cash and due from banks	99,407			135,361				
Premises and equipment	101,546			90,159				
Other assets	615,348			469,933				
Allowance for credit losses	(68,494)			(59,085)				
Total assets	<u>\$ 7,598,202</u>			<u>\$ 6,687,305</u>				
Liabilities and stockholders' equity								
Interest-bearing deposits								
Demand deposits	\$ 3,029,068	\$ 33,898	2.25%	\$ 2,410,582	\$ 19,122	1.60%		
Savings deposits	697,953	363	0.10%	629,829	359	0.11%		
Time deposits	1,002,655	18,173	3.64%	842,110	9,866	2.36%		
Total interest-bearing deposits	4,729,676	52,434	2.23%	3,882,521	29,347	1.52%		
Securities sold under agreements to repurchase	235,149	3,671	3.14%	228,861	3,186	2.81%		
FHLB advances	253,871	4,562	3.61%	513,391	8,958	3.52%		
Federal funds purchased	—	—	—%	387	9	4.69%		
Subordinated debt	106,412	2,374	4.49%	94,587	1,975	4.21%		
Junior subordinated debentures	24,112	1,079	9.00%	19,406	769	7.99%		
Total borrowings	619,544	11,686	3.79%	856,632	14,897	3.51%		
Total interest-bearing liabilities	5,349,220	64,120	%	4,739,153	44,244	%	1.88	
Non interest-bearing demand deposits	1,403,606		1.91%	1,248,710			1.49%	
Other liabilities	51,826			53,408				
Stockholders' equity	793,550			646,034				
Total liabilities and equity	<u>\$ 7,598,202</u>			<u>\$ 6,687,305</u>				
Net interest income		<u>\$ 113,447</u>			<u>\$ 87,056</u>			
Net interest spread			2.80%				2.50%	
Impact of non interest-bearing funds			0.50%				0.39%	
TE net yield on interest-earning assets			3.30%				2.89%	

1. The tax-exempt income is shown on a tax equivalent basis.

2. Nonaccrual loans and loans held for sale are included in the average balances. Balances are net of unaccrued discount related to loans acquired.

Changes in net interest income may also be analyzed by segregating the volume and rate components of interest income and interest expense. The following table summarizes the approximate relative contribution of changes in average volume and interest rates to changes in net interest income for the three and six months ended June 30, 2024, compared to the same period in 2023 (in thousands):

	Three months ended June 30, 2024 compared to 2023 Increase/(Decrease)				Six months ended June 30, 2024 compared to 2023 Increase/(Decrease)			
	Total Change	Volume (1)	Rate (1)	Total Change	Volume (1)	Rate (1)		
Earning assets:								
Interest-bearing deposits	\$ 1,211	\$ 1,208	\$ 3	\$ 3,409	\$ 3,387	\$ 22		
Federal funds sold	(90)	(760)	670	(158)	(422)	264		
Certificates of deposit investments	29	22	7	35	18	17		
Investment securities:								
Taxable	147	(1,715)	1,862	454	(1,504)	1,958		
Tax-exempt (2)	82	(47)	129	46	(59)	105		
Loans (2) (3)	21,026	9,901	11,125	42,481	19,608	22,873		
Total interest income	<u>\$ 22,405</u>	<u>\$ 8,609</u>	<u>\$ 13,796</u>	<u>\$ 46,267</u>	<u>\$ 21,028</u>	<u>\$ 25,239</u>		
Interest-bearing liabilities:								
Interest-bearing deposits								
Demand deposits	\$ 7,819	\$ 3,360	\$ 4,459	\$ 14,776	\$ 5,720	\$ 9,056		
Savings deposits	17	17	—	4	71	(67)		
Time deposits	1,922	(295)	2,217	8,307	2,161	6,146		
Securities sold under agreements to repurchase	(108)	(436)	328	485	92	393		
FHLB advances	(1,836)	(3,835)	1,999	(4,396)	(5,064)	668		
Federal funds purchased	—	—	1	(9)	(5)	(4)		
Subordinated debt	192	122	70	399	260	139		
Junior subordinated debentures	147	101	46	310	204	106		
Total interest expense	8,153	(966)	9,120	19,876	3,439	16,437		
Net interest income	<u>\$ 14,252</u>	<u>\$ 9,575</u>	<u>\$ 4,676</u>	<u>\$ 26,391</u>	<u>\$ 17,589</u>	<u>\$ 8,802</u>		

1. Changes attributable to the combined impact of volume and rate have been allocated proportionately to the change due to volume and the change due to rate.

2. The tax-exempt income is shown on a tax-equivalent basis.

3. Nonaccrual loans have been included in the average balances.

Tax equivalent net interest income increased \$26.4 million, or 30.3%, to \$113.4 million for the six months ended June 30, 2024, from \$87.1 million for the same period in 2023. Net interest income and net interest margin increased primarily due to an increase in earning asset yields partially offset by the increase in deposit and borrowing rates.

For the six months ended June 30, 2024, average earning assets increased \$799.5 million, or 13.2%, and average interest-bearing liabilities increased \$610.1 million or 12.9% compared with average balances for the same period in 2023.

The changes in average balances for these periods are shown below:

- Average interest-bearing deposits with other financial institutions increased \$125.2 million or 492.1%.
- Average federal funds sold decreased \$7.3 million or 92.9%.
- Average certificates of deposits investments increased \$893,000 or 51.0%.
- Average loans increased by \$743.9 million or 15.6%.
- Average securities decreased by \$63.3 million or 5.1%.
- Average interest-bearing customer deposits increased by \$847.2 million or 21.8%.
- Average securities sold under agreements to repurchase increased by \$6.3 million or 2.7%.
- Average borrowings and other debt decreased by \$243.4 million or 38.8%.

- Net interest margin increased to 3.30% for the first six months of 2024 from 2.89% for the first six months of 2023.

Provision for Loan Losses

The provision for credit losses for the six months ended June 30, 2024 and 2023 was \$726,000 and (\$359,000), respectively. Net charge offs were \$1,089,000 for the six months ended June 30, 2024, compared to net charge offs of \$15,000 for June 30, 2023. Nonperforming loans were \$19.1 million and \$18.6 million as of June 30, 2024 and 2023, respectively. For information on loan loss experience and nonperforming loans, see discussion under the "Nonperforming Loans" and "Loan Quality and Allowance for Loan Losses" sections below.

Other Income

An important source of the Company's revenue is other income. The following table sets forth the major components of other income for the three and six months ended June 30, 2024 and 2023 (in thousands):

	Three months ended June 30,				Six months ended June 30,			
	2024	2023	\$ Change	% Change	2024	2023	\$ Change	% Change
Wealth management revenues	\$ 5,405	\$ 5,341	\$ 64	1.2%	\$ 10,727	\$ 10,855	\$ (128)	-1.2%
Insurance commissions	6,531	5,737	794	13.8%	15,744	14,217	1,527	10.7%
Service charges	3,227	2,386	841	35.2%	6,183	4,589	1,594	34.7%
Security gains (losses), net	(156)	(6)	(150)	2500.0%	(156)	(52)	(104)	200.0%
Mortgage banking revenue, net	1,038	332	706	212.7%	1,744	482	1,262	261.8%
ATM/debit card revenue	4,281	3,265	1,016	31.1%	8,336	6,348	1,988	31.3%
Bank owned life insurance	1,192	1,189	3	0.3%	2,313	2,830	(517)	-18.3%
Other	904	1,242	(338)	-27.2%	2,009	2,696	(687)	-25.5%
Total other income	\$ 22,422	\$ 19,486	\$ 2,936	15.1%	\$ 46,900	\$ 41,965	\$ 4,935	11.8%

Following are explanations of the changes in these other income categories for the three and six months ended June 30, 2024 compared to the same period in 2023:

- Wealth management revenues decreased for the six month period due to less agricultural service fees mostly offset by increased brokerage and trust fees.
- Insurance commissions increased primarily due to an increase in commission income, including the acquisition of PGIB, partially offset by a decrease in contingency income during 2024 compared to the same period last year.
- Fees from service charges increased during the first six months of 2024 primarily due to the acquisition of Blackhawk Bank.
- Net losses from the sale of securities during 2024 were \$156,000 and net losses in 2023 were \$52,000. The Company sold 17 securities during the quarter ended June 30, 2024 with the intent to replace them with higher yielding assets.
- The increase in mortgage banking income was due to an increase from loans sold in the secondary market and the acquisition of Blackhawk Bank.
 - \$52.4 million (representing 312 loans) for the six months ended June 30, 2024.
 - \$25.8 million (representing 176 loans) for the six months ended June 30, 2023.

First Mid Bank generally releases the servicing rights on loans sold into the secondary market.

- Revenue from ATMs and debit cards increased due to an increase in activity during the period and the acquisition of Blackhawk Bank.
- Bank owned life insurance income decreased approximately \$517,000 during the first six months of 2024 compared to the same period in 2023 primarily due to a claim payout in 2023.
- Other income decreased primarily due to late charges on loans being presented as interest income starting in 2024.

Other Expense

The following table sets forth the major components of other expense for the three and six months ended June 30, 2024 and 2023 (dollars in thousands):

	Three months ended June 30,				Six months ended June 30,			
	2024	2023	\$ Change	% Change	2024	2023	\$ Change	% Change
Salaries and employee benefits	\$ 30,164	\$ 23,544	\$ 6,620	28.1%	\$ 60,612	\$ 49,615	\$ 10,997	22.2%
Net occupancy and equipment expense	7,507	6,035	1,472	24.4%	15,067	12,040	3,027	25.1%
Net other real estate owned expense	85	27	58	214.8%	64	160	(96)	-60.0%
FDIC insurance	902	1,076	(174)	-16.2%	1,771	1,539	232	15.1%
Amortization of intangible assets	3,340	1,477	1,863	126.1%	6,837	2,999	3,838	128.0%
Stationery and supplies	370	315	55	17.5%	761	607	154	25.4%
Legal and professional	2,536	1,780	756	42.5%	4,985	3,470	1,515	43.7%
Marketing and donations	814	908	(94)	-10.4%	1,676	1,562	114	7.3%
ATM/debit card expense	1,281	1,016	265	26.1%	2,472	2,239	233	10.4%
Other operating expenses	4,392	3,864	528	13.7%	10,508	7,388	3,120	42.2%
Total other expense	\$ 51,391	\$ 40,042	\$ 11,349	28.3%	\$ 104,753	\$ 81,619	\$ 23,134	28.3%

Following are explanations for the changes in these other expense categories for the three and six months ended June 30, 2024 compared to the same period in 2023:

- The increase in salaries and employee benefits, the largest component of other expense, is primarily due to the acquisition of Blackhawk Bank and regularly scheduled annual raises occurring during the quarter ended June 30, 2024. This was partially offset by the Company's efficiency improvement efforts. There were 1,185 and 995 full-time equivalent employees at June 30, 2024 and 2023, respectively.
- The increase in occupancy and equipment expense was primarily due to the acquisition of Blackhawk Bank.
- The decrease in net other real estate owned expense for the six month period was primarily due to properties sold during 2023 that no longer have ongoing expense during 2024 and no write downs of other real estate owned during the period. However, the increase in quarter to date expense in 2024 compared to 2023 can be explained by the addition of four properties to other real estate owned during the quarter ended June 30, 2024.
- Expense for amortization of intangible assets increased for the six months ended June 30, 2024 compared to 2023. Core deposit intangibles and mortgage servicing rights increased due to the acquisition of Blackhawk Bank.
- The increase in other operating expenses during the first six months of 2024 was primarily due to the acquisition of Blackhawk Bank.
- On a net basis, all other categories of operating expenses increased during the period compared to last year primarily due to the acquisition of Blackhawk Bank.

Income Taxes

Total income tax expense amounted to \$13.4 million (25.0% effective tax rate) for the six months ended June 30, 2024, compared to \$10.5 million (23.0% effective tax rate) for the same period in 2023. The increase in effective rate is primarily related to a one time increase in income tax expense required because of the State of Illinois income apportionment law change that occurred during the quarter ended June 30, 2024.

The Company files U.S. federal and state of Florida, Illinois, Indiana, Missouri, Texas, and Wisconsin income tax returns. The Company is no longer subject to U.S. federal or state income tax examinations by tax authorities for years before 2020.

Analysis of Consolidated Balance Sheets

Securities

The Company's overall investment objectives are to insulate the investment portfolio from undue credit risk, maintain adequate liquidity, insulate capital against changes in market value and control excessive changes in earnings while optimizing investment performance. The types and maturities of securities purchased are primarily based on the Company's current and projected liquidity and interest rate sensitivity positions. The following table sets forth the amortized cost of the available-for-sale and held-to-maturity securities as of June 30, 2024 and December 31, 2023 (dollars in thousands):

		June 30, 2024		December 31, 2023	
		Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 224,831		1.31%	\$ 237,875	1.28%
Obligations of states and political subdivisions	334,386		2.30%	337,835	2.31%
Mortgage-backed securities: GSE residential	684,817		1.91%	714,216	1.91%
Other securities	69,352		4.13%	76,081	3.65%
Total securities	\$ 1,313,386		2.02%	\$ 1,366,007	2.00%

At June 30, 2024, the Company's investment portfolio decreased by \$52.6 million from December 31, 2023 primarily due to the sale of 17 securities, paydowns, calls and maturities of various securities. When purchasing investment securities, the Company considers its overall liquidity and interest rate risk profile, as well as the adequacy of expected returns relative to the risks assumed. The table below presents the credit ratings as of June 30, 2024 for investment securities (in thousands):

			Average Credit Rating of Fair Value at June 30, 2024 (1)						
	Amortized Cost	Estimated Fair Value	AAA	AA +/-	A +/-	BBB +/-	< BBB -	Not rated	
Available-for-sale:									
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 224,831	\$ 199,582	\$ 26,033	\$ 173,549	\$ —	\$ —	\$ —	\$ —	—
Obligations of state and political subdivisions	334,386	277,066	36,051	193,360	45,536	—	—	—	2,119
Mortgage-backed securities (2)	684,817	571,054	—	—	—	—	—	—	571,054
Other securities	67,075	62,948	3,107	6,307	17,661	3,439	—	—	32,434
Total available-for-sale	\$ 1,311,109	\$ 1,110,650	\$ 65,191	\$ 373,216	\$ 63,197	\$ 3,439	\$ —	\$ —	\$ 605,607
Held-to-maturity:									
Other securities	2,277	2,277	—	—	—	—	—	—	2,277
Total held-to-maturity	\$ 2,277	\$ 2,277	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 2,277
Equity securities:									
Federal Agricultural Mtg Corp	85	434	—	—	—	—	—	—	434
Midwest Independent BankersBank	150	203	—	—	—	—	—	—	203
Equalize Community Development Fund	3,621	3,621	—	—	—	—	—	—	3,621
Total equity securities	\$ 3,856	\$ 4,258	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 4,258

1.Credit ratings reflect the lowest current rating assigned by a nationally recognized credit rating agency.

2.Mortgage-backed securities include mortgage-backed securities (MBS) and collateralized mortgage obligation (CMO) issues from the following government sponsored enterprises: FHLMC, FNMA, GNMA and FHLB. While MBS and CMOs are no longer explicitly rated by credit rating agencies, the industry recognizes that they are backed by agencies which have an implied government guarantee.

Loans

The loan portfolio is the largest category of the Company's earning assets. The following table summarizes the composition of the loan portfolio at amortized cost, including loans held for sale, as of June 30, 2024 and December 31, 2023 (in thousands):

	June 30, 2024		December 31, 2023	
	Amortized Cost	% Outstanding Loans	Amortized Cost	% Outstanding Loans
Construction and land development	\$ 195,389	3.5%	\$ 205,077	3.7%
Agricultural real estate	387,015	7.0%	391,132	7.0%
1-4 family residential properties	507,517	9.1%	542,469	9.7%
Multifamily residential properties	334,446	6.0%	319,129	5.7%
Commercial real estate	2,406,955	43.4%	2,384,704	42.8%
Loans secured by real estate	3,831,322	69.0%	3,842,511	68.9%
Agricultural loans	213,997	3.8%	196,272	3.5%
Commercial and industrial loans	1,268,646	22.8%	1,266,159	22.7%
Consumer loans	70,841	1.3%	91,014	1.6%
All other loans	175,811	3.1%	184,609	3.3%
Total loans	\$ 5,560,617	100.0%	\$ 5,580,565	100.0%

Loan balances decreased \$19.9 million, or (0.4%). The decrease was primarily due to seasonal pay downs in commercial and industrial loans as well as loan demand partially offset by an increase in agricultural loans due to seasonal demands. The balance of real estate loans held for sale, included in the balances shown above, amounted to \$7.8 million and \$5.0 million as of June 30, 2024 and December 31, 2023, respectively.

Commercial and commercial real estate loans generally involve higher credit risks than residential real estate and consumer loans. Because payments on loans secured by commercial real estate or equipment are often dependent upon the successful operation and management of the underlying assets, repayment of such loans may be influenced to a great extent by conditions in the market or the economy. The Company does not have any sub-prime mortgages or credit card loans outstanding which are also generally considered to be higher credit risk.

Loans are geographically dispersed throughout Illinois, the St. Louis Metro area, central Missouri, Texas, and southern Wisconsin. While these regions have experienced some economic stress during 2024 and 2023, the Company does not consider these locations high risk areas since these regions have not experienced the significant changes in real estate values seen in some other areas in the United States.

First Mid Bank does not have a concentration, as defined by the regulatory agencies, in construction and land development loans or commercial real estate loans as a percentage of the sum of Tier 1 Capital and allowance for loan loss for the periods shown above. At June 30, 2024 and December 31, 2023, First Mid Bank did have industry loan concentrations that exceeded 25% of the sum of Tier 1 Capital and allowance for loan loss in the following industries (dollars in thousands):

	June 30, 2024		December 31, 2023	
	Principal balance	% Outstanding Loans	Principal balance	% Outstanding Loans
Other grain farming	\$ 490,232	8.82%	\$ 472,456	8.47%
Lessors of non-residential buildings	1,067,550	19.20%	1,086,152	19.46%
Lessors of residential buildings and dwellings	562,260	10.11%	541,858	9.71%
Hotels and motels	223,067	4.01%	215,386	3.86%

First Mid Bank had no further industry loan concentrations in excess of 25% of the sum of Tier 1 Capital and allowance for loan loss.

The following table presents the balance of loans outstanding as of June 30, 2024, by contractual maturities (in thousands):

	Maturity (1)				
	One year or less (2)	Over 1 through 5 years	Over 5 years		Total
Construction and land development	\$ 40,912	\$ 49,968	\$ 104,509	\$ 195,389	
Agricultural real estate	26,255	131,374	229,386	387,015	
1-4 family residential properties	26,043	105,577	375,897	507,517	
Multifamily residential properties	36,481	234,740	63,225	334,446	
Commercial real estate	200,582	1,415,947	790,426	2,406,955	
Loans secured by real estate	330,273	1,937,606	1,563,443	3,831,322	
Agricultural loans	163,360	48,382	2,255	213,997	
Commercial and industrial loans	377,849	625,685	265,112	1,268,646	
Consumer loans	2,955	64,992	2,894	70,841	
All other loans	25,733	22,074	128,004	175,811	
Total loans	\$ 900,170	\$ 2,698,739	\$ 1,961,708	\$ 5,560,617	

1.Based upon remaining contractual maturity.

2.Includes demand loans, past due loans and overdrafts.

As of June 30, 2024, loans with maturities over one year consisted of approximately \$3.0 billion in fixed rate loans and approximately \$1.7 billion in variable rate loans. The loan maturities noted above are based on the contractual provisions of the individual loans. The Company has no general policy regarding renewals and borrower requests, which are handled on a case-by-case basis.

Nonperforming Loans and Nonperforming Other Assets

Nonperforming loans include: (a) loans accounted for on a nonaccrual basis; (b) accruing loans contractually past due ninety days or more as to interest or principal payments; and (c) loans not included in (a) and (b) above which are defined as "modified". Repossessed assets include primarily repossessed real estate and automobiles.

The Company's policy is to discontinue the accrual of interest income on any loan for which principal or interest is ninety days past due. The accrual of interest is discontinued earlier when, in the opinion of management, there is reasonable doubt as to the timely collection of interest or principal. Once interest accruals are discontinued, accrued but uncollected interest is charged against current year income. Subsequent receipts on non-accrual loans are recorded as a reduction of principal, and interest income is recorded only after principal recovery is reasonably assured. Nonaccrual loans are returned to accrual status when, in the opinion of management, the financial position of the borrower indicates there is no longer any reasonable doubt as to the timely collection of interest or principal.

Restructured loans are loans on which, due to deterioration in the borrower's financial condition, the original terms have been modified in favor of the borrower or either principal or interest has been forgiven. Repossessed assets represent property acquired as the result of borrower defaults on loans. These assets are recorded at estimated fair value, less estimated selling costs, at the time of foreclosure or repossession. Write-downs occurring at foreclosure are charged against the allowance for loan losses. On an ongoing basis, properties are appraised as required by market indications and applicable regulations. Write-downs for subsequent declines in value are recorded in non-interest expense in other real estate owned along with other expenses related to maintaining the properties.

The following table presents information concerning the aggregate amount of nonperforming loans and repossessed assets at June 30, 2024 and December 31, 2023 (dollars in thousands):

	June 30, 2024	December 31, 2023
Nonaccrual loans	\$ 17,854	\$ 18,832
Modified loans which are performing in accordance with revised terms	1,225	1,296
Total nonperforming loans	19,079	20,128
Repossessed assets	1,478	1,164
Total nonperforming loans and repossessed assets	\$ 20,557	\$ 21,292
Nonperforming loans to loans, before allowance for credit losses	0.34 %	0.36 %
Nonperforming loans and repossessed assets to loans, before allowance for credit losses	0.37 %	0.38 %

The \$1 million decrease in nonaccrual loans during 2024 resulted from the net of \$2.5 million of loans put on nonaccrual status offset by \$2.5 million of loans becoming current or paid-off, \$456,000 of loans transferred to other real estate and \$544,000 of loans charged off. The following table summarizes the composition of nonaccrual loans (dollars in thousands):

	June 30, 2024		December 31, 2023	
	Balance	% of Total	Balance	% of Total
Construction and land development	\$ 6	—%	\$ —	—%
Agricultural real estate	1,125	6.3%	1,146	6.1%
1-4 family residential properties	4,896	27.4%	4,940	26.2%
Commercial real estate	10,421	58.4%	10,237	54.3%
Loans secured by real estate	16,448	92.1%	16,323	86.6%
Commercial and industrial loans	1,015	5.7%	1,931	10.3%
Consumer loans	391	2.2%	578	3.1%
Total loans	<u>\$ 17,854</u>	<u>100.0%</u>	<u>\$ 18,832</u>	<u>100.0%</u>

Interest income that would have been reported if nonaccrual and restructured loans had been performing totaled \$487,000 and \$122,000 for the six months ended June 30, 2024 and 2023, respectively.

The \$314,000 increase in reposessed assets during the 2024 resulted from \$554,000 of additional assets reposessed and \$240,000 reposessed assets sold, no writedowns, and no change in fair value premiums and discounts. The following table summarizes the composition of reposessed assets (dollars in thousands):

	June 30, 2024		December 31, 2023	
	Balance	% of Total	Balance	% of Total
Construction and land development	\$ 1,131	76.5%	\$ 1,130	97.1%
1-4 family residential properties	187	12.7%	33	2.8%
Total real estate	1,318	89.2%	1,163	99.9%
Consumer loans	160	10.8%	1	0.1%
Total reposessed collateral	<u>\$ 1,478</u>	<u>100.0%</u>	<u>\$ 1,164</u>	<u>100.0%</u>

Reposessed assets sold during the first six months of 2024 resulted in \$17,000 net gain or loss of related to real estate asset sales and net gains of \$69,000 related to other asset sales. The Company also recognized no deferred losses and recorded no writedowns on real estate properties owned. Reposessed assets sold during the same period in 2023 resulted in net gains of \$115,000 related to real estate asset sales and net losses of \$21,000 related to other asset sales. The Company also recognized no deferred losses and recorded \$164,000 of writedowns on real estate properties owned.

Loan Quality and Allowance for Credit Losses

The allowance for credit losses represents management's estimate of the reserve necessary to adequately account for probable losses existing in the current portfolio. The provision for loan losses is the charge against current earnings that is determined by management as the amount needed to maintain an adequate allowance for loan losses. In determining the adequacy of the allowance for loan losses, and therefore the provision to be charged to current earnings, management relies predominantly on a disciplined credit review and approval process that extends to the full range of the Company's credit exposure. The review process is directed by overall lending policy and is intended to identify, at the earliest possible stage, borrowers who might be facing financial difficulty. Factors considered by management in evaluating the overall adequacy of the allowance include a migration analysis of the historical net loan losses by loan segment, the level and composition of nonaccrual, past due and renegotiated loans, trends in volumes and terms of loans, effects of changes in risk selection and underwriting standards or lending practices, lending staff changes, concentrations of credit, industry conditions and the current economic conditions in the region where the Company operates.

Management reviews economic factors including the potential for reduced cash flow for commercial operating loans from reduction in sales or increased operating costs, decreased occupancy rates for commercial buildings, reduced levels of home sales for commercial land developments, the uncertainty regarding grain prices, increased operating costs for farmers, and increased levels of unemployment and bankruptcy impacting consumer's ability to pay. Each of these economic uncertainties was taken into consideration in developing the level of the reserve. Management considers the allowance for loan losses a critical accounting policy.

Management recognizes there are risk factors that are inherent in the Company's loan portfolio. All financial institutions face risk factors in their loan portfolios because risk exposure is a function of the business. The Company's operations (and therefore its loans) are concentrated in east central Illinois, an area where agriculture is the dominant industry. Accordingly, lending and other business relationships with agriculture-based businesses are critical to the Company's success. At June 30, 2024, the Company's loan portfolio

included \$601.6 million of loans to borrowers whose businesses are directly related to agriculture. Of this amount, \$490.2 million was concentrated in other grain farming. Total loans to borrowers whose businesses are directly related to agriculture increased \$13.2 million from \$588.5 million at December 31, 2023 while loans concentrated in other grain farming increased \$17.8 million from \$472.5 million at December 31, 2023. While the Company adheres to sound underwriting practices, including collateralization of loans, any extended period of low commodity prices, drought conditions, significantly reduced yields on crops and/or reduced levels of government assistance to the agricultural industry could result in an increase in the level of problem agriculture loans and potentially result in loan losses within the agricultural portfolio. In addition, the Company has \$223.1 million of loans to motels and hotels. The performance of these loans is dependent on borrower specific issues as well as the general level of business and personal travel within the region. While the Company adheres to sound underwriting standards, a prolonged period of reduced business or personal travel could result in an increase in nonperforming loans to this business segment and potentially in loan losses. The Company also has \$1.07 billion of loans to lessors of non-residential buildings, and \$562.3 million of loans to lessors of residential buildings and dwellings.

The structure of the Company's loan approval process is based on progressively larger lending authorities granted to individual loan officers, loan committees, and ultimately the Board of Directors. Outstanding balances to one borrower or affiliated borrowers are limited by federal regulation; however, limits well below the regulatory thresholds are generally observed. Most of the Company's loans are to businesses located in the geographic market areas served by the Company's branch bank system. Additionally, a significant portion of the collateral securing the loans in the portfolio is located within the Company's primary geographic footprint. In general, the Company adheres to loan underwriting standards consistent with industry guidelines for all loan segments.

The Company minimizes credit risk by adhering to sound underwriting and credit review policies. Management and the board of directors of the Company review these policies at least annually. Senior management is actively involved in business development efforts and the maintenance and monitoring of credit underwriting and approval. The loan review system and controls are designed to identify, monitor and address asset quality problems in an accurate and timely manner. The board of directors and management review the status of problem loans each month and formally determine a best estimate of the allowance for loan losses on a quarterly basis. In addition to internal policies and controls, regulatory authorities periodically review asset quality and the overall adequacy of the allowance for loan losses.

Analysis of the allowance for credit losses as of June 30, 2024 and 2023, and of changes in the allowance for the three and six months ended June 30, 2024 and 2023, is as follows (dollars in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2024	2023	2024	2023
Average loans outstanding, net of unearned income	\$ 5,529,211	\$ 4,777,319	\$ 5,526,698	\$ 4,782,757
Allowance-prior year end of period	67,936	58,223	68,675	59,093
Allowance - beginning of period	67,936	58,223	68,675	59,093
Charge-offs:				
Construction and land development	—	14	—	14
Agricultural real estate	—	—	—	—
1-4 family residential	34	16	101	56
Commercial real estate	—	25	—	25
Agricultural	209	276	261	276
Commercial and industrial	368	49	642	62
Consumer	374	200	800	627
Total charge-offs	985	580	1,804	1,060
Recoveries:				
1-4 family residential	100	78	149	102
Commercial real estate	5	327	166	331
Agricultural	—	7	—	10
Commercial and industrial	44	37	108	293
Consumer	129	169	292	309
Total recoveries	278	618	715	1,045
Net charge-offs (recoveries)	707	(38)	1,089	15
Provision for credit losses	1,083	458	726	(359)
Allowance-end of period	\$ 68,312	\$ 58,719	\$ 68,312	\$ 58,719
Ratio of annualized net charge-offs to average loans	0.05 %	0.00 %	0.04 %	0.00 %
Ratio of allowance for credit losses to loans outstanding (at amortized cost)	1.23 %	1.22 %	1.23 %	1.22 %
Ratio of allowance for credit losses to nonperforming loans	358 %	315 %	358 %	315 %

The increase in the allowance for credit losses to nonperforming loans ratio is primarily due to an increase in the allowance for credit losses due to acquiring Blackhawk Bank at June 30, 2024 compared to June 30, 2023.

During the first six months of 2024, the Company had net charge offs of \$1,089,000 compared to net charge offs of \$15,000 in 2023. During the first six months of 2024, there was one commercial real estate loan to one borrower totaling \$193,000. During the first six months of 2023, there were one agricultural loan to one borrower totaling \$0.2 million.

Deposits

Funding of the Company's earning assets is substantially provided by a combination of consumer, commercial and public fund deposits. The Company continues to focus its strategies and emphasis on retail core deposits, the major component of funding sources. The following table sets forth the average deposits and weighted average rates for the six months ended June 30, 2024 and 2023 and for the year ended December 31, 2023 (dollars in thousands):

	Six months ended June 30, 2024		Six months ended June 30, 2023		Year ended December 31, 2023	
	Average Balance	Weighted Average Rate	Average Balance	Weighted Average Rate	Average Balance	Weighted Average Rate
Demand deposits:						
Non-interest-bearing	\$ 1,403,606	—%	\$ 1,248,710	—%	\$ 1,312,023	—%
Interest-bearing	3,029,068	2.25 %	2,410,582	1.60 %	2,618,452	1.83 %
Savings	697,953	0.10 %	629,829	0.11 %	663,760	0.11 %
Time deposits	1,002,655	3.64 %	842,110	2.36 %	961,162	2.98 %
Total average deposits	\$ 6,133,282	1.72 %	\$ 5,131,231	1.16 %	\$ 5,555,397	1.40 %

During the first six months of 2024, the average balance of deposits increased by \$577.9 million from the average balance for the

year ended December 31, 2023. Average non-interest-bearing deposits increased by \$91.6 million, average interest-bearing balances increased by \$410.6 million, savings account balances increased \$34.2 million and balances of time deposits increased \$41.5 million. Approximately 99% of the Company's deposit accounts are less than \$250,000. The average account balance for all deposit customers is approximately \$25,000.

The following table sets forth the high and low month-end balances for the six months ended June 30, 2024 and 2023 and for the year ended December 31, 2023 (in thousands):

	Six months ended June 30, 2024	Six months ended June 30, 2023	Year ended December 31, 2023
High month-end balances of total deposits	\$ 6,242,937	\$ 5,219,585	\$ 6,346,324
Low month-end balances of total deposits	6,104,309	5,030,778	5,030,778

Balances of time deposits, including brokered time deposits of \$100,000 or more include time deposits maintained for public fund entities and consumer time deposits. The following table sets forth the maturity of time deposits, including brokered time deposits of \$100,000 or more at June 30, 2024 and December 31, 2023 (in thousands):

	June 30, 2024	December 31, 2023
3 months or less	\$ 160,053	\$ 183,619
Over 3 through 6 months	285,205	231,187
Over 6 through 12 months	155,223	170,641
Over 12 months	81,575	117,657
Total	\$ 682,056	\$ 703,104

Repurchase Agreements and Other Borrowings

Securities sold under agreements to repurchase are short-term obligations of First Mid Bank. These obligations are collateralized with certain government securities that are direct obligations of the United States or one of its agencies. These retail repurchase agreements are offered as a cash management service to its corporate customers. Other borrowings consist of Federal Home Loan Bank ("FHLB") advances, federal funds purchased, loans (short-term or long-term debt) that the Company has outstanding and junior subordinated debentures. Information relating to securities sold under agreements to repurchase and other borrowings as of June 30, 2024 and December 31, 2023 is presented below (dollars in thousands):

	June 30, 2024	December 31, 2023
Securities sold under agreements to repurchase	\$ 205,955	\$ 213,721
Federal Home Loan Bank advances:		
Fixed term – due in one year or less	40,000	60,000
Fixed term – due after one year	223,735	203,787
Subordinated debt	103,029	106,755
Junior subordinated debentures	24,169	24,058
Total	<u>\$ 596,888</u>	<u>\$ 608,321</u>
Average interest rate at end of period	3.80 %	4.41 %
Maximum outstanding at any month-end:		
Securities sold under agreements to repurchase	\$ 282,285	\$ 231,650
Federal Home Loan Bank advances:		
FHLB – overnight	—	150,000
Fixed term – due in one year or less	65,000	105,024
Fixed term – due after one year	223,744	415,005
Other borrowings:		
Subordinated debt	106,934	106,755
Junior subordinated debentures	24,169	24,058
Averages for the period (YTD):		
Securities sold under agreements to repurchase	\$ 235,149	\$ 225,307
Federal Home Loan Bank advances:		
FHLB – overnight	—	55,104
Fixed term – due in one year or less	55,495	95,669
Fixed term – due after one year	198,376	311,424
Other borrowings:		
Federal funds purchased	—	192
Subordinated debt	106,412	99,638
Junior subordinated debentures	24,112	21,337
Total	<u>\$ 619,544</u>	<u>\$ 808,671</u>
Average interest rate during the period	3.79 %	2.16 %

Securities sold under agreements to repurchase decreased \$7.8 million during the first six months of 2024 primarily due to the cash flow needs of various customers. FHLB advances represent borrowings by First Mid Bank to economically fund loan demand. At June 30, 2024 the fixed term advances, consisted of \$263.6 million as follows:

Advance	Term (in years)	Interest Rate	Maturity Date
25,000,000	2.0	4.59%	November 8, 2024
10,000,000	5.0	1.45%	December 31, 2024
5,000,000	5.0	0.91%	March 10, 2025
3,605,826	10.0	2.64%	December 23, 2025
25,000,000	3.0	4.40%	June 15, 2026
25,000,000	3.0	4.37%	May 10, 2027
25,000,000	3.0	4.32%	May 17, 2027
50,000,000	4.0	3.49%	December 8, 2027
25,000,000	5.0	3.82%	June 29, 2028
25,000,000	5.0	3.95%	June 29, 2028
25,000,000	5.0	3.93%	June 27, 2029
5,000,000	10.0	1.15%	October 3, 2029
5,000,000	10.0	1.12%	October 3, 2029
10,000,000	10.0	1.39%	December 31, 2029

The Company is party to a revolving credit agreement with The Northern Trust Company in the amount of \$15 million. There was no balance on this line of credit as of June 30, 2024. This loan was renewed on April 5, 2024 for one year as a revolving credit agreement. The interest rate is floating at 2.25% over the federal funds rate. The Company and First Mid Bank, as applicable, were in compliance with the existing covenants at June 30, 2024 and 2023, and December 31, 2023.

On October 6, 2020, the Company issued and sold \$96.0 million in aggregate principal amount of its 3.95% Fixed-to-Floating Rate Subordinated Notes due 2030 (the "Notes"). The Notes were issued pursuant to the Indenture, dated as of October 6, 2020 (the "Base Indenture"), between the Company and U.S. Bank National Association, as trustee (the "Trustee"), as supplemented by the First Supplemental Indenture, dated as of October 6, 2020 (the "Supplemental Indenture"), between the Company and the Trustee. The Base Indenture, as amended and supplemented by the Supplemental Indenture, governs the terms of the Notes and provides that the Notes are unsecured, subordinated debt obligations of the Company and will mature on October 15, 2030. From and including the date of issuance to, but excluding October 15, 2025, the Notes will bear interest at an initial rate of 3.95% per annum. From and including October 15, 2025 to, but excluding the maturity date or earlier redemption, the Notes will bear interest at a floating rate equal to three-month Term SOFR plus a spread of 383 basis points, or such other rate as determined pursuant to the Supplemental Indenture, provided that in no event shall the applicable floating interest rate be less than zero per annum. On June 7, 2024, the Company repurchased and cancelled \$4.0 million of the outstanding Notes in the open market.

The Company may, beginning with the interest payment date of October 15, 2025, and on any interest payment date thereafter, redeem the Notes, in whole or in part, at a redemption price equal to 100% of the principal amount of the Notes to be redeemed plus accrued and unpaid interest to but excluding the date of redemption. The Company may also redeem the Notes at any time, including prior to October 15, 2025, at the Company's option, in whole but not in part, if: (i) a change or prospective change in law occurs that could prevent the Company from deducting interest payable on the Notes for U.S. federal income tax purposes; (ii) a subsequent event occurs that could preclude the Notes from being recognized as Tier 2 capital for regulatory capital purposes; or (iii) the Company is required to register as an investment company under the Investment Company Act of 1940, as amended; in each case, at a redemption price equal to 100% of the principal amount of the Notes plus any accrued and unpaid interest to but excluding the redemption date.

On August 15, 2023, the Company assumed, as part of the Blackhawk Bancorp, Inc. acquisition, \$7.5 million principal amount of 3.5% Fixed-to-Floating Rate Subordinated Notes due 2031 ("Blackhawk Subordinated Debt I"). Blackhawk Subordinated Debt I was issued pursuant to Indenture between the Company and UMB Bank, as trustee (the "Trustee"). The Indenture governs the terms of the Notes and provides that the Notes are unsecured, subordinated debt obligations of the Company and will mature on May 14, 2031. From and including the date of issuance to, but excluding May 14, 2026, the Notes will bear interest at an initial rate of 3.5% per annum. From and including May 14, 2026 to, but excluding the maturity date, the Notes will bear interest at a floating rate equal to three-month Term SOFR plus a spread of 285 basis points.

On August 15, 2023, the Company assumed, as part of the Blackhawk Bancorp, Inc. acquisition, \$7.5 million principal amount of 3.875% Fixed-to-Floating Rate Subordinated Notes due 2036 ("Blackhawk Subordinated Debt II"). Blackhawk Subordinated Debt II was issued pursuant to Indenture between the Company and UMB Bank, as trustee (the "Trustee"). The Indenture governs the terms of the Notes and provides that the Notes are unsecured, subordinated debt obligations of the Company and will mature on May 14, 2036. From and including the date of issuance to, but excluding May 14, 2031, the Notes will bear interest at an initial rate of 3.875%

per annum. From and including May 14, 2031 to, but excluding the maturity date, the Notes will bear interest at a floating rate equal to three-month Term SOFR plus a spread of 255 basis points.

On April 26, 2006, the Company completed the issuance and sale of \$10 million of fixed/floating rate trust preferred securities through First Mid-Illinois Statutory Trust II ("Trust II"), a statutory business trust and wholly owned unconsolidated subsidiary of the Company, as part of a pooled offering. The Company established Trust II for the purpose of issuing the trust preferred securities. The \$10 million in proceeds from the trust preferred issuance and an additional \$310,000 for the Company's investment in common equity of Trust II, a total of \$10,310 000, was invested in junior subordinated debentures of the Company. The underlying junior subordinated debentures issued by the Company to Trust II mature in 2036, bore interest at a fixed rate of 6.98% paid quarterly until June 15, 2011 and then converted to floating rate (LIBOR plus 160 basis points, 7.20% and 7.25% at June 30, 2024 and December 31, 2023, respectively).

On September 8, 2016, the Company assumed the trust preferred securities of Clover Leaf Statutory Trust I ("CLST I"), a statutory business trust that was a wholly owned unconsolidated subsidiary of First Clover Financial. The \$4,000,000 of trust preferred securities and an additional \$124,000 investment in common equity of CLST I, is invested in junior subordinated debentures issued to CLST I. The subordinated debentures mature in 2025, bear interest at three-month LIBOR plus 185 basis points (7.45% and 7.50% at June 30, 2024 and December 31, 2023, respectively) and resets quarterly.

On May 1, 2018, the Company assumed the trust preferred securities of FBTC Statutory Trust I ("FBTCST I"), a statutory business trust that was a wholly owned unconsolidated subsidiary of First BancTrust Corporation. The \$6,000,000 of trust preferred securities and an additional \$186,000 investment in common equity of FBTCST I is invested in junior subordinated debentures issued to FBTCST I. The subordinated debentures mature in 2035, bear interest at three-month LIBOR plus 170 basis points (7.30% and 7.35% at June 30, 2024 and December 31, 2023, respectively) and resets quarterly.

On August 15, 2023, the Company assumed the trust preferred securities of Blackhawk Statutory Trust I ("BHST I"), a statutory business trust that was a wholly owned unconsolidated subsidiary of Blackhawk Bancorp, Inc. The \$1,000,000 of trust preferred securities and an additional \$31,000 investment in common equity of BHST I is invested in junior subordinated debentures issued to BHST I. The subordinated debentures mature in 2032, bear interest at three-month LIBOR plus 325 basis points (8.82% and 8.87% at June 30, 2024 and December 31, 2023, respectively) and resets quarterly.

On August 15, 2023, the Company assumed the trust preferred securities of Blackhawk Statutory Trust II ("BHST II"), a statutory business trust that was a wholly owned unconsolidated subsidiary of Blackhawk Bancorp, Inc. The \$4,000,000 of trust preferred securities and an additional \$124,000 investment in common equity of BHST II is invested in junior subordinated debentures issued to BHST II. The subordinated debentures mature in 2035, bear interest at three-month LIBOR plus 205 basis points (7.65% and 7.69% at June 30, 2024 and December 31, 2023, respectively) and resets quarterly.

The trust preferred securities issued by Trust II, CLST I, FBTCST I, BHST I, and BHST II are included as Tier 1 capital of the Company for regulatory capital purposes. On March 1, 2005, the Federal Reserve Board adopted a final rule that allows the continued limited inclusion of trust preferred securities in the calculation of Tier 1 capital for regulatory purposes. The final rule provided a five-year transition period, ending September 30, 2010, for application of the revised quantitative limits. On March 17, 2009, the Federal Reserve Board adopted an additional final rule that delayed the effective date of the new limits on inclusion of trust preferred securities in the calculation of Tier 1 capital until March 31, 2012. The application of the revised quantitative limits did not and is not expected to have a significant impact on its calculation of Tier 1 capital for regulatory purposes or its classification as well-capitalized. The Dodd-Frank Act, signed into law July 21, 2010, removes trust preferred securities as a permitted component of a holding company's Tier 1 capital after a three-year phase-in period beginning January 1, 2013 for larger holding companies. For holding companies with less than \$15 billion in consolidated assets, existing issues of trust preferred securities are grandfathered and not subject to this new restriction.

Similarly, the final rule implementing the Basel III reforms allows holding companies with less than \$15 billion in consolidated assets as of December 31, 2009 to continue to count toward Tier 1 capital any trust preferred securities issued before May 19, 2010. New issuances of trust preferred securities, however, would not count as Tier 1 regulatory capital.

In addition to requirements of the Dodd-Frank Act discussed above, the act also required the federal banking agencies to adopt certain rules that prohibit banks and their affiliates from engaging in proprietary trading and investing in and sponsoring certain unregistered investment companies (defined as hedge funds and private equity funds). This rule is generally referred to as the "Volcker Rule." The rules permit the retention of an interest in or sponsorship of covered funds by banking entities under \$15 billion in assets (such as the Company) if (1) the collateralized debt obligation was established and issued prior to May 19, 2010, (2) the banking entity reasonably believes that the offering proceeds received by the collateralized debt obligation were invested primarily in qualifying trust preferred collateral, and (3) the banking entity's interests in the collateralized debt obligation was acquired on or prior to December 10, 2013. The Company does not currently anticipate that the Volcker Rule will have a material effect on the

operations of the Company or First Mid Bank.

Interest Rate Sensitivity

The Company seeks to maximize its net interest margin while maintaining an acceptable level of interest rate risk. Interest rate risk can be defined as the amount of forecasted net interest income that may be gained or lost due to changes in the interest rate environment, a variable over which management has no control. Interest rate risk, or sensitivity, arises when the maturity or repricing characteristics of interest-bearing assets differ significantly from the maturity or repricing characteristics of interest-bearing liabilities. The Company monitors its interest rate sensitivity position to maintain a balance between rate sensitive assets and rate sensitive liabilities. This balance serves to limit the adverse effects of changes in interest rates. The Company's asset liability management committee (ALCO) oversees the interest rate sensitivity position and directs the overall allocation of funds.

In the banking industry, a traditional way to measure potential net interest income exposure to changes in interest rates is through a technique known as "static GAP" analysis which measures the cumulative differences between the amounts of assets and liabilities maturing or repricing at various intervals. By comparing the volumes of interest-bearing assets and liabilities that have contractual maturities and repricing points at various times in the future, management can gain insight into the amount of interest rate risk embedded in the balance sheet. The following table sets forth the Company's interest rate repricing GAP for selected maturity periods at June 30, 2024 (dollars in thousands):

	Rate Sensitive Within							Total	Fair Value
	1 years	1-2 years	2-3 years	3-4 years	4-5 years	Thereafter			
Interest-earning assets:									
Federal funds sold and other interest-bearing deposits	\$ 131,027	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 131,027	\$ 131,027	
Certificates of deposit investments	2,205	1,540	—	—	—	—	3,745	3,745	
Taxable investment securities	113,917	95,492	85,166	131,466	161,629	199,579	787,249	787,249	
Nontaxable investment securities	8,196	1,830	11,871	5,330	14,216	288,493	329,936	329,936	
Loans	2,430,780	951,498	1,014,578	557,196	252,544	354,021	5,560,617	5,219,573	
Total	\$ 2,686,125	\$ 1,050,360	\$ 1,111,615	\$ 693,992	\$ 428,389	\$ 842,093	\$ 6,812,574	\$ 6,471,530	
Interest-bearing liabilities:									
Savings and NOW accounts	\$ 84,504	\$ —	\$ —	\$ —	\$ —	\$ 2,498,870	\$ 2,583,374	\$ 2,583,374	
Money market accounts	1,127,699	—	—	—	—	—	1,127,699	1,127,699	
Other time deposits	881,366	54,310	21,342	46,392	6,615	1,345	1,011,370	935,228	
Short-term borrowings/debt	205,955	—	—	—	—	—	205,955	205,955	
Long-term borrowings/debt	164,169	125,953	50,000	—	25,000	25,811	390,933	383,885	
Total	\$ 2,463,693	\$ 180,263	\$ 71,342	\$ 46,392	\$ 31,615	\$ 2,526,026	\$ 5,319,331	\$ 5,236,141	
Rate sensitive assets – rate sensitive liabilities	\$ 222,432	\$ 870,097	\$ 1,040,273	\$ 647,600	\$ 396,774	\$ (1,683,933)	\$ 1,493,243		
Cumulative GAP	222,432	1,092,529	2,132,802	2,780,402	3,177,176	1,493,243			
Cumulative amounts as % of total Rate sensitive assets	3.3%	12.8%	15.3%	9.5%	5.8%	-24.7%			
Cumulative Ratio	3.3%	16.0%	31.3%	40.8%	46.6%	21.9%			

The static GAP analysis shows that at June 30, 2024, the Company was liability sensitive, on a cumulative basis, through the twelve-month time horizon. This indicates that future increases in interest rates could have an adverse effect on net interest income. There are several ways the Company measures and manages the exposure to interest rate sensitivity, including static GAP analysis. The Company's ALCO also uses other financial models to project interest income under various rate scenarios and prepayment/extension assumptions consistent with First Mid Bank's historical experience and with known industry trends. ALCO meets at least monthly to review the Company's exposure to interest rate changes as indicated by the various techniques and to make necessary changes in the composition terms and/or rates of the assets and liabilities.

Capital Resources

At June 30, 2024, the Company's stockholders' equity increased \$20.4 million or 2.6%, to \$813.6 million from \$793.2 million as of December 31, 2023. During the first six months of 2024, net income contributed \$40.2 million to equity before the payment of dividends to stockholders. The change in market value of available-for-sale investment securities decreased stockholders' equity by \$10.6 million, net of tax. Dividends of \$10.9 million were paid during the first six months of 2024.

The Company is subject to various regulatory capital requirements administered by the federal banking agencies. Bank holding companies follow minimum regulatory requirements established by the Board of Governors of the Federal Reserve System ("Federal Reserve System"), First Mid Bank follows similar minimum regulatory requirements established for banks by the Office of the Comptroller of the Currency ("OCC") and the Federal Deposit Insurance Corporation, as applicable. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary action by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Quantitative measures established by regulatory capital standards to

ensure capital adequacy require the Company and its subsidiary bank to maintain minimum capital amounts and ratios (set forth in the table below). Management believes that, as of June 30, 2024 and December 31, 2023, the Company and First Mid Bank, as applicable, met all capital adequacy requirements.

As permitted by the interim final rule issued on March 27, 2020 by the federal banking regulatory agencies, the Company elected the option to delay the estimated impact on regulatory capital of adopting ASU 2016-13, which was effective January 1, 2020. The initial impact of adoption of ASU 2016-13, as well as 25% of the quarterly increases in allowance for credit losses subsequent to adoption of ASU 2016-13 was delayed for two years. After two years, the cumulative amount of these adjustments is being phased out of the regulatory capital calculation over a three-year period, with 75% of the adjustments included in 2022, 50% of the adjustments included in 2023 and 25% of the adjustments included in 2024. After five years, the temporary delay of ASU 2016-13 adoption will be fully reversed.

To be categorized as well-capitalized, total risk-based capital, Tier 1 risk-based capital, common equity Tier 1 risk-based capital and Tier 1 leverage ratios must be maintained as set forth in the following table (dollars in thousands):

	Actual		Required Minimum For Capital Adequacy Purposes		To Be Well-Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
June 30, 2024						
Total capital (to risk-weighted assets)						
Company	\$ 925,512	15.46%	\$ 628,710	> 10.50%	N/A	N/A
First Mid Bank	871,011	14.59%	626,728	> 10.50%	\$ 596,884	> 10.00%
Tier 1 capital (to risk-weighted assets)						
Company	757,202	12.65%	508,956	> 8.50%	N/A	N/A
First Mid Bank	805,730	13.50%	507,351	> 8.50%	477,507	> 8.00%
Common equity tier 1 capital (to risk-weighted assets)						
Company	733,033	12.24%	419,140	> 7.00%	N/A	N/A
First Mid Bank	805,730	13.50%	417,819	> 7.00%	387,974	> 6.50%
Tier 1 capital (to average assets)						
Company	757,202	10.04%	301,569	> 4.00%	N/A	N/A
First Mid Bank	805,730	10.74%	300,215	> 4.00%	375,269	> 5.00%
December 31, 2023						
Total capital (to risk-weighted assets)						
Company	\$ 894,259	14.84%	\$ 632,724	>10.50%	N/A	N/A
First Mid Bank	854,235	14.22%	630,581	>10.50%	\$ 600,553	> 10.00%
Tier 1 capital (to risk-weighted assets)						
Company	724,186	12.02%	512,205	> 8.50%	N/A	N/A
First Mid Bank	790,917	13.17%	510,470	> 8.50%	480,443	> 8.00%
Common equity tier 1 capital (to risk-weighted assets)						
Company	700,128	11.62%	421,816	> 7.00%	N/A	N/A
First Mid Bank	790,917	13.17%	420,387	> 7.00%	390,360	> 6.50%
Tier 1 capital (to average assets)						
Company	724,186	9.33%	310,587	> 4.00%	N/A	N/A
First Mid Bank	790,917	10.23%	309,151	> 4.00%	386,439	> 5.00%

The Company's risk-weighted assets, capital, and capital ratios for June 30, 2024 are computed in accordance with Basel III capital rules which were effective January 1, 2015. As of June 30, 2024, the Company and First Mid Bank had capital ratios above the required minimums for regulatory capital adequacy, and First Mid Bank had capital ratios that qualified it for treatment as well-capitalized under the regulatory framework for prompt corrective action with respect to banks.

Stock Plans

Participants may purchase Company stock under the following three plans of the Company: The Deferred Compensation Plan, the Dividend Reinvestment Plan, and the Stock Incentive Plan. For more detailed information on these plans, refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2023.

At the Annual Meeting of Stockholders held April 26, 2017, the stockholders approved the 2017 Stock Incentive Plan ("SI Plan"). The SI Plan was implemented to succeed the Company's 2007 Stock Incentive Plan, which had a ten-year term. The SI Plan is intended to provide a means whereby directors, employees, consultants and advisors of the Company and its Subsidiaries may sustain a sense of proprietorship and personal involvement in the continued development and financial success of the Company and its Subsidiaries, thereby advancing the interests of the Company and its stockholders. Accordingly, directors and selected employees, consultants and advisors may be provided the opportunity to acquire shares of Common Stock of the Company on the terms and conditions established in the SI Plan.

Following the stockholders' approval at the 2021 annual meeting of the Company, a maximum of 399,983 shares of common stock may be issued under the SI Plan. The Company awarded 53,766 and 59,950 restricted stock awards during 2024 and 2023, respectively and 39,150 and 37,900 as stock unit awards during 2024 and 2023, respectively.

Employee Stock Purchase Plan

At the Annual Meeting of Stockholders held April 25, 2018, the stockholders approved the First Mid-Illinois Bancshares, Inc. Employee Stock Purchase Plan ("ESPP"). The ESPP is intended to promote the interests of the Company by providing eligible employees with the opportunity to purchase shares of common stock of the Company at a 15% discount through payroll deductions. The ESPP is also intended to qualify as an employee stock purchase plan under Section 423 of the Internal Revenue Code. A maximum of 600,000 shares of common stock may be issued under the ESPP. As of June 30, 2024, 109,663 shares have been issued pursuant to the ESPP. During the six months ended June 30, 2024 and 2023, 15,935 shares and 17,138 shares, respectively, were issued pursuant to the ESPP.

Stock Repurchase Program

Since August 5, 1998, the Board of Directors has approved repurchase programs pursuant to which the Company may repurchase a total of approximately \$76.7 million of the Company's common stock. During 2024, the Company did not repurchase any shares. The Company has approximately \$4.1 million in remaining capacity under its existing repurchase program.

Although the Company adopted the repurchase plan, the Company may make discretionary repurchases in the open market or in privately negotiated transactions from time to time. The timing, manner, price and amount of any such repurchases will be determined by the Company at its discretion and will depend upon a variety of factors including economic and market conditions, price, applicable legal requirements and other factors.

Liquidity

Liquidity represents the ability of the Company and its subsidiaries to meet all present and future financial obligations arising in the daily operations of the business. Financial obligations consist of the need for funds to meet extensions of credit, deposit withdrawals and debt servicing. The Company's liquidity management focuses on the ability to obtain funds economically through assets that may be converted into cash at minimal costs or through other sources. The Company's other sources of cash include overnight federal fund lines, Federal Home Loan Bank advances, deposits of the State of Illinois, the ability to borrow at the Federal Reserve Bank of Chicago, and the Company's operating line of credit with The Northern Trust Company.

Details of the Company's liquidity sources include:

- First Mid Bank has \$120 million available in overnight federal fund lines, including \$30 million from First Horizon Bank, N.A., \$20 million from U.S. Bank, N.A., \$10 million from Wells Fargo Bank, N.A., \$15 million from The Northern Trust Company, \$25 million from Zions Bank, and \$20 million from BMO Bank, N.A. Availability of the funds is subject to First Mid Bank meeting minimum regulatory capital requirements for total capital to risk-weighted assets and Tier 1 capital to total average assets. As of June 30, 2024, First Mid Bank met these regulatory requirements.
- First Mid Bank can borrow from the Federal Home Loan Bank as a source of liquidity. Availability of the funds is subject to the pledging of collateral to the Federal Home Loan Bank. Collateral that can be pledged includes one-to-four family residential real estate loans and securities. At June 30, 2024, the excess collateral at the FHLB would support approximately \$1,631 million of additional advances for First Mid Bank.

- First Mid Bank is a member of the Federal Reserve System and can borrow funds provided that sufficient collateral is pledged.
- In addition, as of June 30, 2024, the Company had a revolving credit agreement in the amount of \$15 million with The Northern Trust Company with an outstanding balance of \$0 and \$15 million in available funds. This loan was renewed on April 5, 2024 for one year as a revolving credit agreement. The interest rate is floating at 2.25% over the federal funds rate. The loan is unsecured. The Company and its subsidiary bank were in compliance with the existing covenants at June 30, 2024 and 2023 and December 31, 2023.

Management continues to monitor its expected liquidity requirements carefully, focusing primarily on cash flows from:

- lending activities, including loan commitments, letters of credit and mortgage prepayment assumptions;
- deposit activities, including seasonal demand of private and public funds;
- investing activities, including prepayments of mortgage-backed securities and call provisions on U.S. Treasury and government agency securities; and
- operating activities, including scheduled debt repayments and dividends to stockholders.

The following table summarizes significant contractual obligations and other commitments at June 30, 2024 (in thousands):

	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Time deposits	\$ 1,007,999	\$ 877,995	\$ 75,652	\$ 53,007	\$ 1,345
Debt	127,198	—	4,048	—	123,150
Other borrowing	469,690	245,956	78,734	125,000	20,000
Operating leases	17,143	3,216	5,595	4,152	4,180
Supplemental retirement	1,928	50	250	300	1,328
	<u>\$ 1,623,958</u>	<u>\$ 1,127,217</u>	<u>\$ 164,279</u>	<u>\$ 182,459</u>	<u>\$ 150,003</u>

For the six months ended June 30, 2024, net cash of \$53.0 million was provided by operating activities, \$69.3 million was provided by investing activities, and \$29.9 million was used in financing activities. In total, cash and cash equivalents increased by \$92.4 million since year-end 2023.

Off-Balance Sheet Arrangements

First Mid Bank enters into financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include lines of credit, letters of credit and other commitments to extend credit. Each of these instruments involves, to varying degrees, elements of credit, interest rate and liquidity risk in excess of the amounts recognized in the consolidated balance sheets. The Company uses the same credit policies and requires similar collateral in approving lines of credit and commitments and issuing letters of credit as it does in making loans. The exposure to credit losses on financial instruments is represented by the contractual amount of these instruments. However, the Company does not anticipate any losses from these instruments. The off-balance sheet financial instruments whose contract amounts represent credit risk at June 30, 2024 and December 31, 2023 were as follows (in thousands):

	June 30, 2024	December 31, 2023
Unused commitments and lines of credit:		
Commercial real estate	\$ 221,058	\$ 219,117
Commercial operating	635,914	681,360
Home equity	105,047	104,142
Other	319,861	311,907
Total	\$ 1,281,880	\$ 1,316,526
Standby letters of credit	\$ 18,352	\$ 17,401

Commitments to originate credit represent approved commercial, residential real estate and home equity loans that generally are expected to be funded within ninety days. Lines of credit are agreements by which the Company agrees to provide a borrowing accommodation up to a stated amount as long as there is no violation of any condition established in the loan agreement. Both commitments to originate credit and lines of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the lines and some commitments are expected to expire without being drawn upon, the total amounts do not necessarily represent future cash requirements.

Standby letters of credit are conditional commitments issued by the Company to guarantee the financial performance of customers to third parties. Standby letters of credit are primarily issued to facilitate trade or support borrowing arrangements and generally expire in one year or less. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending credit facilities to customers. The maximum amount of credit that would be extended under letters of credit is equal to the total off-balance sheet contract amount of such instrument. The Company's deferred revenue under standby letters of credit was nominal.

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There has been no material change in the market risk faced by the Company since December 31, 2023. For information regarding the Company's market risk, refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2023.

ITEM 4. CONTROLS AND PROCEDURES

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's "disclosure controls and procedures" (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), as of the end of the period covered by this report. Based on such evaluation, such officers have concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures are effective. Further, there have been no changes in the Company's internal control over financial reporting during the last fiscal quarter that have materially affected or that are reasonably likely to affect materially the Company's internal control over financial reporting.

PART II

ITEM 1. LEGAL PROCEEDINGS

From time to time the Company and its subsidiaries may be involved in litigation that the Company believes is a type common to our industry. None of any such existing claims are believed to be individually material at this time to the Company, although the outcome of any such existing claims cannot be predicted with certainty.

ITEM 1A. RISK FACTORS

Various risks and uncertainties, some of which are difficult to predict and beyond the Company's control, could negatively impact the Company. As a financial institution, the Company is exposed to interest rate risk, liquidity risk, credit risk, operational risk, risks from economic or market conditions, and general business risks among others. Adverse experience with these or other risks could have a material impact on the Company's financial condition and results of operations, as well as the value of its common stock. See the risk factors and "Supervision and Regulation" described in the Company's Annual Report on Form 10-K for the year ended December 31, 2023.

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

ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
April 1, 2024 - April 30, 2024	—	\$ —	—	\$ 4,061,000
May 1, 2024 - May 31, 2024	—	—	—	4,061,000
June 1, 2024 - June 30, 2024	—	—	—	4,061,000
Total	—	\$ —	—	\$ 4,061,000

See heading "Stock Repurchase Program" for more information regarding stock purchases.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None of the Company's directors and officers adopted, modified or terminated a Rule 10b5-1 trading arrangement or a non-Rule 10b5-1 trading arrangement during the Company's fiscal quarter ended June 30, 2024 (each as defined in Item 408 of Regulation S-K under the Securities Exchange Act of 1934, as amended).

On September 25, 2020, First Mid and Eval Sub Inc., a newly formed corporation and wholly-owned subsidiary of First Mid (the "Merger Sub"), entered into an Agreement and Plan of Merger, as amended (the "Merger Agreement"), with LINCO Bancshares, Inc., a Missouri corporation ("LINCO"), and the sellers as defined therein (collectively, the "Sellers"), pursuant to which, among other things, First Mid agreed to acquire 100% of the issued and outstanding shares of LINCO pursuant to a business combination whereby the Merger Sub would merge with and into LINCO, whereupon the separate corporate existence of the Merger Sub will cease and LINCO will continue as the surviving company and a wholly-owned subsidiary of First Mid (the "Merger"). On February 22, 2021, First Mid completed its acquisition of LINCO through the merger of the Merger Sub with and into LINCO, with LINCO as the surviving corporation pursuant to the Merger Agreement.

In connection with the issuance of the shares of First Mid (the "Shares") pursuant to the Merger, First Mid entered into a Registration Rights Agreement, dated as of February 22, 2021 (the "Registration Rights Agreement"), with the Seller who received the Shares as consideration for the Merger. Pursuant to the terms of the Registration Rights Agreement, First Mid filed a resale registration statement which became effective on August 8, 2021, and First Mid agreed, among other terms, to keep the resale registration statement effective for three years following effectiveness.

On August 7, 2024, First Mid and the Seller who received the Shares as consideration for the Merger agreed to Amendment No. 1 to Registration Rights Agreement pursuant to which First Mid agreed to keep the resale registration statement effective for three years following the effective date of the amendment.

The foregoing description of Amendment No. 1 to Registration Rights Agreement is not complete and is qualified in its entirety by reference to the full text of Amendment No. 1 to Registration Rights Agreement, a copy of which is filed as Exhibit 10.1 hereto and is incorporated herein by reference.

ITEM 6. EXHIBITS

The exhibits required by Item 601 of Regulation S-K and filed herewith are listed in the Exhibit Index that precedes the Signature Page and the exhibits filed.

Exhibit Number	Exhibit Index to Quarterly Report on Form 10-Q Description and Filing or Incorporation Reference
10.1	Amendment No. 1 to Registration Rights Agreement, dated as of August 7, 2024
31.1	Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002
101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File as its XBRL tags are embedded within the Inline XBRL document
101.SCH	Inline XBRL Taxonomy Extension Schema With Embedded Linkbase Documents
104	Cover page formatted as Inline Inline XBRL and contained in Exhibits 101

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 MID BANCSHARES, INC.
(Registrant)

Date: August 7, 2024

/s/ Joseph R. Dively

Joseph R. Dively
President and Chief Executive Officer

/s/ Matthew K. Smith

Matthew K. Smith
Chief Financial Officer

**AMENDMENT NO. 1 TO
REGISTRATION RIGHTS AGREEMENT**

This Amendment No. 1 to Registration Rights Agreement (this "**Amendment**") is made and entered into as of August 7, 2024 by and between First Mid Bancshares, Inc., a Delaware corporation (the "**Company**"), and the Holder listed on the signature page hereto.

RECITALS

WHEREAS, the Company and the Holder entered into that certain Registration Rights Agreement, dated as of February 22, 2021 (the "**Agreement**");

WHEREAS, Section 5.4 of the Agreement permits the amendment of the Agreement pursuant to an agreement in writing executed by the Company and Holders holding a majority of the Registrable Securities at such time;

WHEREAS, the Holder listed on the signature page hereto holds a majority of the Registrable Securities as of the date hereof; and

NOW, THEREFORE, in consideration of the mutual covenants and agreements contained herein, the parties agree as follows:

**ARTICLE I
AMENDMENT**

Section 1.1 The last sentence of Section 3.1(b) of the Agreement is hereby amended and restated in its entirety to read as follows:

"Subject to the terms of this Agreement, the Company shall use commercially reasonable efforts to have the Registration Statement declared effective as soon as reasonably practicable after such filing and to keep the Registration Statement continuously effective as promptly as practical and in compliance with the Securities Act and usable for resale of Registrable Securities covered thereby from the date of its initial effectiveness (the "**Initial Effectiveness Date**") until three (3) years following the date of Amendment No. 1 to this Agreement entered into as of August 7, 2024 (such period, the "**Effectiveness Period**"); provided, however, that nothing in this Agreement shall require the Company to maintain any Registration Statement once all Registrable Securities may be sold pursuant to Rule 144 without any limitation as to manner-of-sale restrictions or volume limitations."

**ARTICLE II
GENERAL PROVISIONS**

Section 2.1 The Agreement is amended, as of the date hereof, by adding, deleting or otherwise modifying the provisions of the Agreement as noted herein. All other provisions of the Agreement remain intact and by signing below, each of the parties hereto reaffirms its agreement to be bound by the terms and conditions of the Agreement (as hereby amended by this Amendment), as applicable. This Amendment is part of the Agreement. Capitalized terms used but not defined in this Amendment shall have the same meanings ascribed to such terms in the Agreement.

Section 2.2 As amended by this Amendment, the Agreement is in all respects ratified and confirmed, and as so amended by this Amendment, the Agreement shall be read, taken and construed as one and the same instrument. Upon the execution of this Amendment, each reference in the Agreement to "this Agreement," "hereby," "hereunder," "herein," "hereof" or words of like import referring to the Agreement shall mean and refer to the Agreement as amended by this Amendment. Any and all notices, requests, certificates and other instruments executed and delivered prior to, on or after the date of this Amendment may refer to the Agreement without making specific

reference to this Amendment, but nevertheless all references to the Agreement shall be a reference to such document as amended hereby.

Section 2.3 This Amendment may be executed in any number of counterparts (including by electronic means), each of which shall be deemed an original, but all of which together shall constitute one and the same agreement and shall become effective when counterparts have been signed by each of the parties and delivered to the other parties, it being understood that each party need not sign the same counterpart.

(Next Page is Signature Page)

IN WITNESS WHEREOF, each of the parties has executed this Amendment as of the date first written above.

COMPANY:

FIRST MID BANCSHARES, INC.

By: /s/ Joseph R. Dively

Name: Joseph R. Dively

Title: President and Chief Executive Officer

HOLDER:

EPL LINCO Trust, dated December 1, 2015

By: /s/ Elizabeth Paige Laurie

Name: Elizabeth Paige Laurie

Title: Trustee

Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002

I, Joseph R. Dively, certify that:

- 1.I have reviewed this quarterly report on Form 10-Q of First Mid Bancshares, Inc.;
- 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 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 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.

Date: August 7, 2024

By: /s/ Joseph R. Dively

Joseph R. Dively
President and Chief Executive Officer

Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002

I, Matthew K. Smith, certify that:

- 1.I have reviewed this report on Form 10-Q of First Mid Bancshares, Inc.;
- 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 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 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.

Date: August 7, 2024

By: /s/ Matthew K. Smith

Matthew K. Smith
Chief Financial Officer

**Certification 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 Mid Bancshares, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2024 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Joseph R. Dively, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 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; and
- (2)The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 7, 2024

/s/ Joseph R. Dively
Joseph R. Dively
President and Chief Executive Officer

Certification pursuant to 18 U.S.C. section 1350, as adopted pursuant to

In connection with the Quarterly Report of First Mid Bancshares, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2024 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Matthew K. Smith, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 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; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 7, 2024

/s/ Matthew K. Smith
Matthew K. Smith
Chief Financial Officer
