Focusing on our

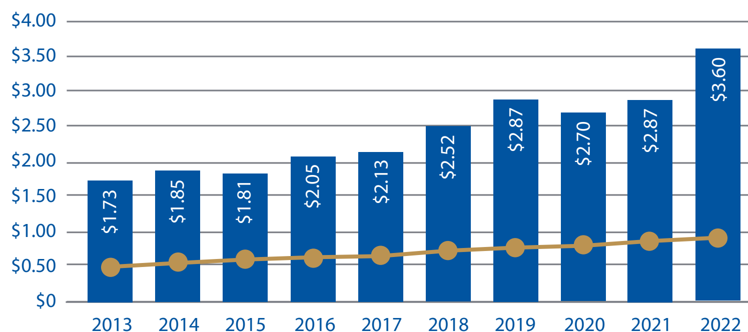
STRATEGIC PRIORITIES

2022

Annual Report

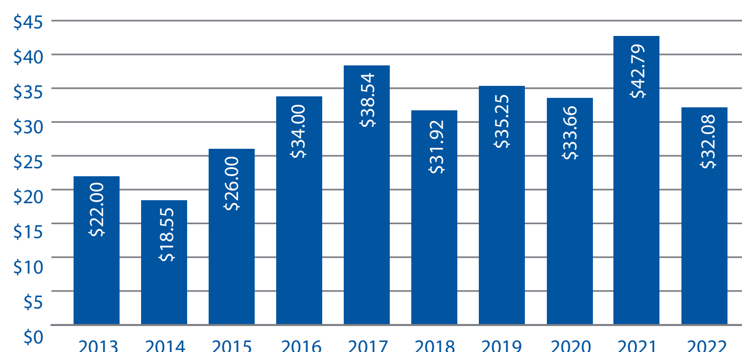
Stockholder Information

Earnings Per Share (Diluted) and Dividends Per Share (●)

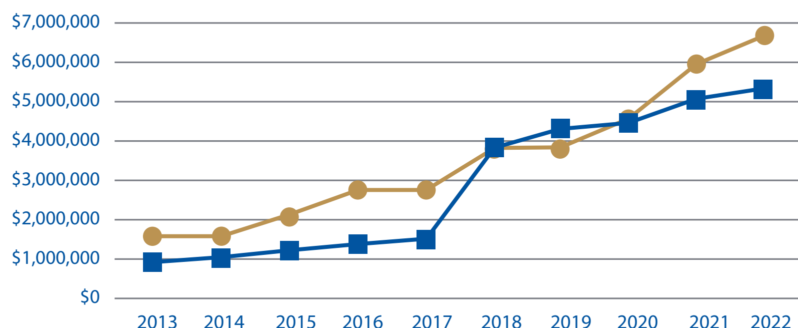


Year-End Market Price of Stock

FMBH stock price on December 31.



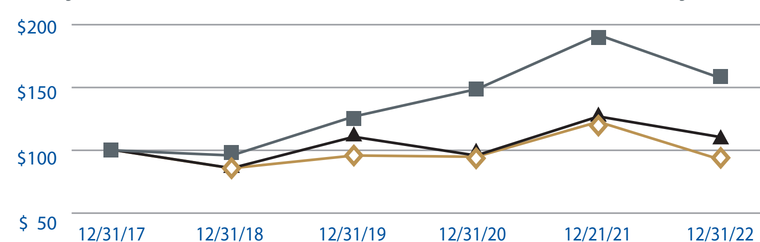
Year-End Assets (Dollars in Thousands)



● First Mid Bancshares, Inc. Assets ■ Trust & Wealth Management Assets Under Management

Comparison of Five Year Cumulative Total Return*

Among First Mid Bancshares, Inc., the S&P 500 Index, and S&P U.S. BMI Banks - Midwest Region Index



	12/31/17	12/31/18	12/31/19	12/31/20	12/31/21	12/31/22
First Mid Bancshares, Inc.	$100.00	$ 84.42	$ 95.30	$ 93.60	$121.49	$ 93.30
S&P 500 Index	$100.00	$ 95.62	$125.72	$148.85	$191.58	$156.88
S&P U.S. BMI Banks - Midwest Region Index	$100.00	$ 85.39	$111.10	$ 95.52	$126.19	$108.91

* $100 invested on 12/31/17 in stock or index, including reinvestment of dividends. Fiscal year ending December 31.
Source: S&P Global Market Intelligence © 2023

TRANSFER, DIVIDEND PAYING, AND DIVIDEND REINVESTMENT PLAN AGENT
For stockholder inquiries or for information concerning payments of the Company's dividend, or the Dividend Reinvestment Plan, contact:

REGULAR MAIL
Computershare
PO Box 43006
Providence RI 02940-3006

STREET ADDRESS FOR OVERNIGHT DELIVERY
Computershare
150 Royall Street, Suite 101
Canton MA 02021
312-360-5377 | 877-373-6374
www.computershare.com/contactus

FORM 10-K
A copy of the 2022 Annual Report on Form 10-K with all exhibits filed with the Securities and Exchange Commission (SEC) is available, free of charge, at www.firstmid.com by clicking on "Investor Relations" under "About First Mid." All periodic and current reports of First Mid Bancshares, Inc. can be accessed through this website as soon as reasonably practicable after these materials are filed with the SEC.

A copy may also be obtained by sending a written request to:
Mr. Aaron Holt
First Mid Bancshares, Inc.
1421 Charleston Avenue, PO Box 499
Mattoon IL 61938

or by email to: aholt@firstmid.com

This document contains forward looking statements. For a discussion of factors that could cause actual results to differ materially from those contained in such statements, please see "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our annual report on Form 10-K included herein, and our other filings with the Securities and Exchange Commission.

Message from the Chairman

Joseph Dively
Chairman and Chief Executive Officer

Thanks to a strong start, 2022 was another successful year for First Mid. We achieved the majority of our goals for the year despite the challenging economy and rising interest rates. We accelerated our cross-selling momentum, saw organic loan growth greater than 10%, and reached double-digit revenue growth in both insurance and wealth management business lines. We continued to advance community development initiatives and managed to increase our already impressive employee engagement scores. I am extremely proud of the resilience and customer focus of the entire First Mid team.

We completed the successful acquisition and conversion of Delta Bancshares, Inc., holding company for Jefferson Bank and Trust, and welcomed Jefferson's customers and strong team of community bankers to First Mid in the second quarter. The Jefferson acquisition contributed to the growth of our asset size to $6.7 billion and allowed us to expand our presence in the St. Louis market with the addition of five branch locations.

Even with the growth we achieved, the year was not without its challenges. The pace and size of interest rate increases midway through 2022 put pressure on our net interest margin. We balanced market-based pricing and profitability expectations as deposit costs rose more quickly than loan yields, resulting in compressed margins. However, we were able to navigate this difficult economic environment due to our strong asset quality, diversified revenue with nearly 30% from noninterest income, and focused expense management.

Board of Directors Retirement

On April 26, 2023, Steven L. Grissom will step off the Board of Directors due to mandatory retirement provisions in our bylaws. Steve has served as a director of the Company and as an audit committee financial expert since 2000. His expertise in tax and accounting functions was an invaluable asset to the board. These skills played a major role in First Mid's growth over the years, serving the board in its assessment of complex financial and strategic matters. Steve will be missed by our team but his impact will be felt for many years to come.

Steven Grissom

Strategic Highlights

Before we turn our attention to the 2022 financial performance, I wanted to share additional highlights that tie directly to our strategic priorities:

- **M&A Execution:** Beyond the Jefferson acquisition, our wealth management group also completed a targeted acquisition that added business line diversity and expanded coverage.
- **Relationship Development:** Our banking, insurance, and wealth management teams continue to work closely together in delivering customer solutions, while deepening our relationships. We continue to see momentum on cross-selling initiatives across business lines. The diversity of our product lines and revenue streams is a strategic advantage for First Mid.
- **Empowering Employer:** Empowering our employees is fundamental to our culture. Conducted by Gallup, our annual employee survey achieved our all-time highest employee engagement score along with an impressive 98.7% participation level. These outstanding metrics demonstrate that our employees care about First Mid and allow us to more accurately identify areas where we are fulfilling expectations as well as areas of opportunity for improvement.
- **Commitment to Community:** Volunteerism, financial support, and sponsorship are important components of our Commitment to Community strategic initiative. They are ways that we simply demonstrate our gratitude and passion for the communities in which we live, play, and work. First Mid employees volunteered over 15,800 hours to community organizations in 2022. In October, we introduced a new volunteer paid time off benefit that is perfectly aligned with our culture of giving back. Employees are able to use this time to support activities that enhance and serve our communities. In addition to increasing volunteer efforts, we also added strategic partnerships in underserved communities and increased our CRA investments in 2022.

Financial Highlights

We delivered a record year with $73.0 million in net income and diluted earnings per share of $3.60. These results reflected an increase of $21.5 million, or 41.7%, over the prior year. This increase was driven by a combination of organic growth and the acquisition of Jefferson Bank and Trust, which closed in February.

Our balance sheet grew by $757.6 million, or 12.7%, and total assets ended the year over $6.7 billion. This increase was driven by both the Jefferson acquisition and a record year of loan growth. The rapid increase in interest rates in 2022 resulted in pressure on our deposit balances and some volatility in our net interest margin. While net interest margin increased in the first three quarters, peaking at 3.21% in the third quarter, the ratio declined to 3.07% in the fourth quarter as earning assets were slower to reprice than our funding costs. We offset this pressure with growth in our noninterest income and focused expense management.

The diversification of our revenue sources is a key differentiator for First Mid. In a period when many financial institutions saw a decline in noninterest income, we delivered a record high of $74.7 million, an increase of 7% over the prior year. This increase was the result of strong growth in our insurance and wealth management business lines, which more than offset lower mortgage banking revenues. These business lines recognized double-digit growth in the year, with insurance increasing by 14.2% and wealth management increasing by 10.2%. Our noninterest income represented approximately 29% of our total revenues for 2022.

Operating expenses for the year were $162.9 million, an increase of 4.7% over the prior year. The increase was primarily driven by a combination of the Jefferson acquisition and inflationary pressures. We continue to operate with a solid efficiency ratio, while investing in technology, employees, and our communities. Our full-time equivalent employees ended the year at 1,043 versus 965 at the end of 2021.

Our asset quality ratios ended the year at or near a historic best. Nonperforming loans to total loans declined to 0.40% from 0.55%. The allowance for credit losses to nonperforming loans ratio increased to 308% from 248% and the reserve to total loans ended the year at 1.22%.

We continued to deliver a competitive dividend and increased our quarterly dividend per share from $0.22 to $0.23 in the third quarter. In total, we paid $0.90 per share in dividends for 2022, returning $17.8 million to shareholders throughout the year.

In Summary

In summary, First Mid had a solid 2022 despite the economic challenges. Our strategic plan, focused on all our stakeholders, continues to provide direction and accountability for our actions and results. 2023 will be a challenging year, but we will navigate this current market cycle just as we have over the past 157 years in our Company's history. We will continue to manage what is in our control, which includes a warm and consultative customer experience, cross-selling to deepen relationships, and enhancing the First Mid culture around our core values. Our team has never been stronger, and I have never been more confident and excited about our future.

Sincerely,

Joseph R. Dively
Chairman and Chief Executive Officer

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549
FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2022

Or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _________ to

Commission file number 001-36434

FIRST MID BANCSHARES, INC.

(Exact name of Registrant as specified in its charter)

Delaware	**37-1103704**
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification no.)
1421 Charleston Avenue, Mattoon, Illinois	**61938**
(Address of principal executive offices)	(Zip code)

(217) 234-7454

(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	**FMBH**	**NASDAQ Global Market**

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

NONE

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

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

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

Indicate by check mark whether the Registrant has submitted electronically, every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (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 has filed a report on and attestation to its management’s assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.D.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

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

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

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

The aggregate market value of the outstanding common stock, other than shares held by persons who may be deemed affiliates of the Registrant, as of the last business day of the Registrant’s most recently completed second fiscal quarter was approximately $639,158,758. Determination of stock ownership by non-affiliates was made solely for the purpose of responding to this requirement and the Registrant is not bound by this determination for any other purpose.

As of March 3, 2023, 20,497,489 shares of the Registrant’s common stock, $4.00par value, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Document	**Into Form 10-K Part:**
Portions of the Proxy Statement for 2023 Annual Meeting of Shareholders to be held on April 26, 2023	III

1,264

First Mid Bancshares, Inc.

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PART I

ITEM 1. BUSINESS

Company and Subsidiaries

First Mid Bancshares, Inc. (the "Company"), formerly known as First Mid-Illinois Bancshares, Inc., is a financial holding company. The Company is engaged in the business of banking through its wholly owned subsidiary, First Mid Bank & Trust, N.A. ("First Mid Bank"). The Company offers insurance products and services to customers through its wholly owned subsidiary, First Mid Insurance Group, Inc. ("First Mid Insurance"). The Company offers trust, farm services, investment services, and retirement planning through its wholly owned subsidiary, First Mid Wealth Management Company. The Company also wholly owns a captive insurance company, First Mid Captive, Inc. In addition, the Company wholly owns three statutory business trusts, First Mid-Illinois Statutory Trust II ("First Mid Trust II"), Clover Leaf Statutory Trust I ("CLST Trust"), and FBTC Statutory Trust I ("FBTCST I"), all of which are unconsolidated subsidiaries of the Company. On February 14, 2022, the Company acquired Jefferson Bank, which was merged into First Mid Bank on June 10, 2022.

The Company, a Delaware corporation, was incorporated on September 8, 1981, and pursuant to the approval of the Board of Governors of the Federal Reserve System (the "Federal Reserve Board") became the holding company owning all of the outstanding stock of First National Bank, Mattoon ("First National") on June 1, 1982. First National changed its name to First Mid-Illinois Bank & Trust, N.A. in 1992, and subsequently changed its name to First Mid Bank & Trust, N.A. in 2019. The Company has also acquired all the outstanding stock of a number of community banks or thrift institutions, and subsequently combined their operations with those of the Company and First Mid Bank.

Human Capital

The Company seeks to provide a work environment that attracts, develops, and retains top talent. The Company's culture is derived from its core values: Integrity, Motivation, Professionalism, Accountability, Commitment, and Teamwork. These values are the framework for providing employees an engaging work experience that allows for career fulfillment and growth.

Diversity and Inclusion

The Company's commitment to diversity starts with its Board of Directors, which oversees the culture and holds management accountable to build and maintain a diverse and inclusive environment. Management believes a diverse workforce is critical to sustainable success. To improve results and increase accountability, the Company named its first Diversity, Equity and Inclusion ("DEI") officer in 2022. The DEI officer reports directly to the CEO. As of December 31, 2022, the Company employed 1070 employees with 95% of those full-time and 5% part-time. The Company's current employee base include 72% females, 8% minorities, and 2% veterans. The Company's commitment to diversity resulted in a year over year increase in minorities within its workforce from 6.7% to 8%. The increased diversity within the Company's team is due to its emphasis on partnering with organizations that enable job postings to reach a greater percentage of diverse applicants. The Company is proud of its workforce and the opportunity to further diversify its team going forward.

Maintaining a work environment where every employee is treated with dignity and respect is essential to ensuring that employees can devote their full attention to performing their jobs to the best of their ability. The Company understands that its success is dependent on continuing to strengthen its culture of inclusion.

Talent Engagement

During the last four years, the Company has partnered with a trusted industry leader to conduct an annual employee engagement survey. Employee participation in the engagement survey was 98.7% for 2022. The high level of participation in the survey provides the Company confidence that the results are meaningful and that the areas identified as needing improvement are genuine. The ability to target areas for improvement has resulted in the overall engagement score increasing each year.

The Company also has an Employee First Committee ("EFC") whose purpose is to improve employee satisfaction and fulfillment by promoting fun, fellowship and generosity within the Company and the community across the Company footprint. Another purpose of the EFC is to raise money and supplies for local charities through events that are sponsored by the Company and staffed by its employees.

The Company's CEO has an annual award called the Chairman's Award for Excellence which allows employees to nominate peers who have gone above and beyond. This award recognizes individuals in the organization who have consistently performed above expectations or achieved extraordinary results while exemplifying the Company's core values.

The CEO hosts an all employee call each quarter to share Company information and ongoing initiatives with Company employees. In addition to sharing important updates, employees are encouraged to submit questions in advance or during the call to be answered by management. Finally, a tradition of the quarterly call is to recognize the Company's top performers, both at work and in the communities we serve.

Talent Development

The Company supports the personal and professional development of its employees in a variety of ways. First, the Company offers tuition reimbursement to support employee's continued education and development by providing employees up to $3,500 annually for eligible educational courses. All employees also receive annual regulatory training, and, by partnering with a 3rd party, the Company can tailor the training to fit the job functions of its employees. In addition, employees can access a variety of career development content within the online learning management system to expand their skills.

The Company provides for development opportunities through a program that allows employees the opportunity to shadow other roles. This gives the employee the chance to observe and experience a new role and determine what positions might be an ideal fit for advancement opportunities. In addition, those that participate develop a broader knowledge of the Company as a whole.

Professional development training is provided to support job function, leadership, and compliance. The Banker Basics Mentor Program is an example of the Company's efforts to develop its frontline employees. Frontline employees are chosen by management to mentor and train new hires on core systems, customer service and processing customer transactions. The new employee spends the first ten days of employment working one on one with a peer learning on the job. In addition, the implementation of Leadership Development Training in 2022, provided all managers with information to enhance their skills with the hiring process, coaching, crucial conversations, and employee engagement.

The Company also provides leadership training based on the book *The Leadership Pipeline*. This training is provided for executive, upper and mid-level management employees and is highly interactive. The purpose of this engaging program is to educate leaders that their role is to coach and mentor their team members. Regular one-on-one meetings with purposeful conversations is an expectation because it leads to better results and engagement of their team. After the formal training, the participants continue to expand their learning by participating in follow up cohort groups for the following six months. In 2022, the Company provided leadership training to 20 managers through our Leader of Leaders and Leader of Others programs.

Lastly, succession planning is conducted annually for the Company's most senior leaders and high impact roles. The process includes identifying potential successors for different positions and assessing their readiness level to fill the role should it become vacant. Management focuses on intentional development with activities needed to prepare the employee for the next level.

Total Rewards

The Company is committed to offering a competitive total rewards package for its employees which includes compensation and benefits. The Company invested in its workforce during 2021 by readjusting job grade and pay ranges to better align positions with current market trends. Each position within the Company is placed in a job grade based on the necessary skill and experience needed to succeed in the position. Management provided complete transparency to team members by publishing each job grade and pay grade through a job value matrix.

In 2022 the Company addressed inflation by awarding employees making $70,000 or less a 3% wage increase, so the Company is well positioned to retain its workforce. The Company continually reviews its benefits compared to peers in the market and make changes as needed to ensure it remains competitive.

The Company offers a wide array of benefits for its employees including:

- Medical, Dental, and Vision Insurance Plans
- Flexible Spending Accounts
- Health Savings Accounts with a Company Matching Contribution
- Company provided Life Insurance
- Company provided Long Term Disability
- Company provided Premier Checking Account
- 401(k) Plan including a Company Match
- Profit Sharing Contribution
- Employee Stock Purchase Plan with an Employee Discount
- Voluntary Ancillary Insurance Plans
- Paid Time Off (Vacation, Sick, Volunteer and Personal Time)
- Maternity/Paternity Paid Leave
- Tuition Reimbursement
- Computer Purchase Program
- Dress Professional Program
- Service Anniversary/Retirement Recognition & Award
- Chairman's Award – Top Peer Recognition
- Volunteer Time Recognition
- Company Apparel – Company Pays 50%
- Opportunity for Bonus and Stock awards

Encouraging Volunteerism

The Company invests in and contributes to the growth and development of its communities. The Commitment to the Communities program encourages employees to be engaged in the communities where they live and work. In 2022, the Company's employees volunteered 15,889 hours to organizations in their communities. The Company also encourages employees to serve in leadership roles in these organizations as part of their professional development. Over 50% of the Company's workforce contributed to its annual United Way campaign which resulted in a total contribution to the United Way of over $145,000.

Business Strategies

Vision Statement. The Company's vision statement is to be a nimble, independent, community-focused financial organization committed to quality, growth and earned independence for the benefit of all stakeholders.

Growth Strategy. The Company believes that growth of revenues and its customer base is vital to the goal of increasing the value of its shareholders' investment. The Company strives to create shareholder value by maintaining a strong balance sheet and increasing profits.

Management attempts to grow in two primary ways:

- by organic growth through adding new customers and selling more products and services to existing customers; and
- by strategic acquisitions.

Virtually all of the Company's customer-contact personnel, in each of its business lines, are engaged in organic growth efforts to one degree or another. These personnel attempt to match products and services with the particular financial needs of individual customers and prospective customers. Many senior officers of the organization are required to attend monthly meetings where they report on their business development efforts and results. Executive management uses these meetings as an educational and risk management opportunity as well. Cross-selling opportunities are encouraged and measured between the business lines.

Within the community banking line, the Company has focused on a variety of lending and deposit services products that meet the needs of the communities it serves. The Company has achieved significant growth in these areas. Total commercial real estate loans have increased from $907 million at December 31, 2018 to $2.0 billion at December 31, 2022. Of this increase, approximately $773 million was the result of strategic acquisitions during the period. Approximately 65% of the Company's total revenues were derived from lending activities in the fiscal year ended December 31, 2022. The Company has also focused on growing its commercial and retail deposit base through growth in checking, money markets and customer repurchase agreement balances. The wealth management line has focused its growth efforts on estate planning and investment services for individuals and employee benefit services for businesses as well as, farm management and brokerage services. The insurance brokerage line has focused on increasing property and casualty, senior insurance products and group medical insurance for businesses and personal lines insurance to individuals.

Growth through acquisitions has been an integral part of the Company's strategy for an extended period of time. When reviewing acquisition possibilities, the Company focuses on those organizations where there is a cultural fit with its existing operations and where there is a strong likelihood of building shareholder value.

Customer Strategy. The Company uses its market and customer knowledge to build relationships that provide high-value customer experiences that continually improve customer satisfaction and loyalty.

Employee Strategy. The Company strives for employee engagement at all levels of the organization. The judgments, experiences and capabilities of these employees are used to create an environment where meeting the needs of our customer, communities and stockholders is always a priority.

Strategy for Operations & Infrastructure. Operationally, the Company centralizes most administrative and operational tasks within its home office in Mattoon, Illinois. This allows branches to maintain customer focus, helps assure compliance with banking regulations, keeps fixed administrative costs at as low a level as practicable, and allows for better management of risk inherent in the business. The Company also utilizes technology where practicable in daily banking activities to reduce the potential for human error. While the Company does not employ every new technology that is introduced, it attempts to be competitive with other banking organizations with respect to operational and customer technology.

Shareholder Strategy. The Company strives to provide a competitive dividend as well as the opportunity for stock price appreciation.

Risk Management Strategy. The Company maintains a comprehensive risk management framework. The Company has initiated an Enterprise Risk Management ("ERM") process whereby management assesses the relevant risks inherent in the business, determines internal controls and procedures are in place to address the various risks, develops a structure for monitoring and reporting risk indicators and trends over time, and incorporates action plans to manage risk positions. The ERM process was not undertaken as a result of any weaknesses or deficiencies identified during the Company's control assessments but rather is part of the Company's effort to continually assess and improve by taking a more holistic approach to risk management. The Company's Chief Risk Management Officer is responsible for facilitating the ERM process. The Company utilizes a comprehensive set of operational policies and procedures that have been developed over time. These policies are continually reviewed by management, the Chief Risk Management Officer, and the Board of Directors. The Company's internal audit function completes procedures to ensure compliance with these policies. While there are several risks that pertain to the business of banking, three risks that are inherent with most banking companies are credit risk, interest rate risk, and liquidity risk.

In the business of banking, credit risk is an important risk as losses from uncollectible loans can diminish capital, earnings and shareholder value. In order to address this risk, the lending function of First Mid Bank receive significant oversight from executive management and the Board of Directors. An important element of credit risk management is the quality, experience and training of the loan officers. The Company has invested, and will continue to invest, significant resources to ensure the quality, experience and training of our loan officers in order to keep credit losses at a minimum. In addition to the human element of credit risk management, the Company's loan policies address the additional aspects of credit risk. Most lending personnel have signature authority that allows them to lend up to a certain amount based on their own judgment as to the creditworthiness of a borrower. The amount of the signature authority is based on the lending officers' experience and training.

The Senior Loan Committee, consisting of the most experienced lenders within the organization, must approve all underwriting decisions in excess of $10 million and up to $30 million. The Board of Directors must approve all underwriting decisions in excess of $30 million. The legal lending limit for First Mid Bank was $111.8 million at December 31, 2022. While the underlying nature of lending will result in some amount of loan losses, First Mid's loan loss experience has been good with average net charge offs amounting to $3.6 million (0.12% of total loans) over the past five years. Nonperforming loans were $19.2 million (0.40% of total loans) at December 31, 2022. These percentages have historically compared well with peer financial institutions and continue to do so today.

Interest rate and liquidity risk are two other forms of risk embedded in the banking business. The Company's Asset Liability Management Committee, consisting of experienced individuals, from various departments, who monitor all aspects of interest rates and maturities of interest earning assets and interest paying liabilities, manages these risks. The underlying objectives of interest rate and liquidity risk management are to shelter the Company's net interest margin from changes in interest rates while maintaining adequate liquidity reserves to meet unanticipated funding demands. The Company uses financial modeling technology as a tool for evaluating these risks. Despite the tools and methods used to monitor this risk, a sustained unfavorable interest rate environment can lead to some amount of compression in the net interest margin. During 2022, the Company's net interest margin on a tax-effected basis decreased to 3.13% from 3.21% in 2021 primarily due to less accretion income and lower interest rates in a more competitive and challenging interest rate environment.

Markets and Competition

The Company has active competition in all areas in which First Mid Bank does business. First Mid Bank competes for commercial and individual deposits and loans with many Illinois, Missouri and Texas banks, savings and loan associations, and credit unions. The principal methods of competition in the banking and financial services industry are quality of services to customers, ease of access to facilities, on-line services and pricing of services, including interest rates paid on deposits, interest rates charged on loans, and fees charged for fiduciary and other banking services.

During 2022, First Mid Bank operated branches in the Illinois counties of Adams, Champaign, Christian, Clark, Coles, Cumberland, Douglas, Edgar, Effingham, Jackson, Jefferson, Knox, Lawrence, Macon, Madison, Moultrie, McLean, Peoria, Piatt, Saline, St Clair, Wabash, White and Williamson, and in Missouri counties of Boone, Lincoln, Cole, Camden, Saint Charles and Saint Louis, and the Texas county of Tarrant. Each branch primarily serves the community in which it is located. First Mid Bank served forty-seven different communities with fifty-two separate locations in Illinois, thirteen locations in Missouri, one location in Texas, and a loan production office in Indiana.

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 and at www.sec.gov as soon as reasonably practicable after these materials are filed with the SEC.

2021 Loan Purchase

During 2021, First Mid Bank completed an acquisition of loans in the St. Louis Metro market totaling $208 million. There were no loans purchased with deteriorated credit. First Mid Bank also assumed $219 million of related customer deposits and recorded a core deposit intangible asset of approximately $4.9 million that is being amortized on an accelerated basis over ten years.

LINCO Bancshares, Inc.

On September 25, 2020, the Company and Eval Sub Inc., a wholly owned subsidiary of the Company ("LINCO Merger Sub"), entered into an Agreement and Plan of Merger (the "LINCO Merger Agreement") with LINCO Bancshares, Inc., the former parent of Providence Bank ("LINCO"), and the sellers as defined therein, pursuant to which, among other things, the Company agreed to acquire 100% of the issued and outstanding shares of LINCO pursuant to a business combination whereby LINCO Merger Sub merged with and into LINCO, whereupon the separate corporate existence of LINCO Merger Sub ceased and LINCO continued as the surviving company and a wholly owned subsidiary of the Company (the "LINCO Merger").

Subject to the terms and conditions of the LINCO Merger Agreement, at the effective time of the LINCO Merger, each share of common stock, par value $1.00 per share, of LINCO issued and outstanding immediately prior to the effective time of the LINCO Merger (other than shares held in treasury by LINCO) was converted into and became the right to receive, cash or shares of common stock, par value $4.00 per share, of the Company 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 paid by the Company at the closing of the LINCO Merger was $103.5 million in cash and 1,262,246 shares of the Company's common stock, provided that the shareholders of LINCO have collectively elected pursuant to the LINCO Merger Agreement to receive varying amounts of cash or shares of common stock of the Company as consideration in the Merger. In addition, immediately prior to the closing of the LINCO merger, LINCO paid a special dividend to its shareholders in the aggregate amount of $13 million.

The LINCO Merger closed on February 22, 2021 and Providence Bank was merged into First Mid Bank on May 15, 2021.

Delta Bancshares Company

On July 28, 2021, the Company and Brock Sub LLC, a newly formed Delaware limited liability company and wholly-owned subsidiary of the Company ("Delta Merger Sub"), entered into an Agreement and Plan of Merger (the "Delta Merger Agreement") with Delta Bancshares Company, a Missouri corporation ("Delta"), pursuant to which, among other things, the Company agreed to acquire 100% of the issued and outstanding shares of Delta pursuant to a business combination whereby Delta will merge with and into Merger Sub, whereupon the separate corporate existence of Delta will cease and Merger Sub will continue as the surviving company and a wholly-owned subsidiary of First Mid (the "Delta Merger").

Subject to the terms and conditions of the Delta Merger Agreement, at the effective time of the Delta Merger, each share of common stock, par value $10.00 per share, of Delta issued and outstanding immediately prior to the effective time of the Delta Merger (other than shares held in treasury by Delta) converted into and became the right to receive cash and shares of common stock, par value $4.00 per share, of the Company 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 paid by the Company at the closing of the Delta Merger to Delta's shareholders and option holders was approximately $15.2 million in cash and 2,292,270 shares of Company common stock. Delta's outstanding stock vested upon consummation of the Delta Merger, and all outstanding Delta options that are unexercised prior to the effective time of the Delta Merger were cashed out.

The Delta Merger closed February 14, 2022 and Jefferson Bank was merged into First Mid Bank on June 10, 2022.

Supervision and Regulation General

Financial institutions, financial services companies, and their holding companies are extensively regulated under federal and state law. As a result, the growth and earnings performance of the Company can be affected not only by management decisions and general economic conditions, but also by the requirements of applicable state and federal statutes and regulations and the policies of various governmental regulatory authorities including, but not limited to, the Office of the Comptroller of the Currency (the "OCC"), the Federal Reserve Board, the Federal Deposit Insurance Corporation (the "FDIC"), the Missouri Division of Finance ("MDOF"), the Internal Revenue Service and state taxing authorities. Any change in applicable laws, regulations or regulatory policies may have material effects on the business, operations and prospects of the Company and First Mid Bank. The Company is unable to predict the nature or extent of the effects that fiscal or monetary policies, economic controls or new federal or state legislation may have on its business and earnings in the future.

Federal and state laws and regulations generally applicable to financial institutions and financial services companies, such as the Company and its subsidiaries, regulate, among other things, the scope of business, investments, reserves against deposits, capital levels relative to operations, the nature and amount of collateral for loans, the establishment of branches, mergers, consolidations and dividends. The system of supervision and regulation applicable to the Company and its subsidiaries establishes a comprehensive framework for their respective operations and is intended primarily for the protection of the FDIC's deposit insurance fund and the depositors, rather than the stockholders, of financial institutions.

The following references to material statutes and regulations affecting the Company and its subsidiaries are brief summaries thereof and do not purport to be complete and are qualified in their entirety by reference to such statutes and regulations. Any change in applicable law or regulations may have a material effect on the business of the Company and its subsidiaries.

Financial Modernization Legislation

The 1999 Gramm-Leach-Bliley Act (the "GLB Act") significantly changed financial services regulation by expanding permissible non-banking activities of bank holding companies and removing certain barriers to affiliations among banks, insurance companies, securities firms and other financial services entities. These activities and affiliations can be structured through a holding company structure or, in the case of many of the activities, through a financial subsidiary of a bank. The GLB Act also established a system of federal and state regulation based on functional regulation, meaning that primary regulatory oversight for a particular activity generally resides with the federal or state regulator having the greatest expertise in the area. Banking is supervised by banking regulators, insurance by state insurance regulators and securities activities by the SEC and state securities regulators. The GLB Act also requires the disclosure of agreements reached with community groups that relate to the Community Reinvestment Act, and contains various other provisions designed to improve the delivery of financial services to consumers while maintaining an appropriate level of safety in the financial services industry.

The GLB Act repealed the anti-affiliation provisions of the Glass-Steagall Act and revised the Bank Holding Company Act of 1956 (the "BHCA") to permit qualifying holding companies, called "financial holding companies," to engage in, or to affiliate with companies engaged in, a full range of financial activities, including banking, insurance activities (including insurance portfolio investing), securities activities, merchant banking and additional activities that are "financial in nature," incidental to financial activities or, in certain circumstances, complementary to financial activities. A bank holding company's subsidiary banks must be "well-capitalized" and "well-managed" and have at least a "satisfactory" Community Reinvestment Act rating for the bank holding company to elect and maintain its status as a financial holding company.

A significant component of the GLB Act's focus on functional regulation relates to the application of federal securities laws and SEC oversight of some bank securities activities previously exempt from broker-dealer registration. Among other things, the GLB Act amended the definitions of "broker" and "dealer" under the Securities Exchange Act of 1934, as amended, to remove the blanket exemption for banks. Under the GLB Act, banks may conduct securities activities without broker-dealer registration only if the activities fall within a set of activity-based exemptions designed to allow banks to conduct only those activities traditionally considered to be primarily banking or trust activities.

Securities activities outside these exemptions, as a practical matter, need to be conducted by a registered broker-dealer affiliate. The GLB Act also amended the Investment Advisers Act of 1940 to require the registration of banks that act as investment advisers for mutual funds. The Company believes that it has taken the necessary actions to comply with these requirements of the GLB Act and the regulations adopted under them.

Anti-Terrorism Legislation

The USA PATRIOT Act of 2001 included the International Money Laundering Abatement and Anti-Terrorist Financing Act of 2001 (the "IMLAFA"). The IMLAFA contains anti-money laundering measures affecting insured depository institutions, broker-dealers, and certain other financial institutions. The IMLAFA requires U.S. financial institutions to adopt policies and procedures to combat money laundering and grants the Secretary of the Treasury broad authority to establish regulations and to impose requirements and restrictions on financial institutions' operations. The Company has established policies and procedures for compliance with the IMLAFA and the related regulations. The Company has designated an officer solely responsible for ensuring compliance with existing regulations and monitoring changes to the regulations as they occur.

Dodd-Frank Wall Street Reform and Consumer Protection Act

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act") was signed into law on July 21, 2010. Generally, the Act is effective the day after it was signed into law, but different effective dates apply to specific sections of the law. The Act, among other things:

- Resulted in the Federal Reserve issuing rules limiting debit-card interchange fees.

- After a three-year phase-in period which began January 1, 2013, existing trust preferred securities for holding companies with consolidated assets greater than $15 billion and all new issuances of trust preferred securities are removed as a permitted component of a holding company's Tier 1 capital. Trust preferred securities outstanding as of May 19, 2010 that were issued by bank holding companies with total consolidated assets of less than $15 billion, such as the Company, will continue to count as Tier 1 capital.

- Provides for new disclosure and other requirements relating to executive compensation and corporate governance.

- Changes standards for Federal preemption of state laws related to federally chartered institutions and their subsidiaries.

- Provides mortgage reform provisions including (i) a customer's ability to repay, (ii) restricting variable-rate lending by requiring the ability to repay to be determined for variable-rate loans by requiring lenders to evaluate using the maximum rate that will apply during the first five years of a variable-rate loan term, and (iii) making more loans subject to provisions for higher cost loans and new disclosures.

- Creates a financial stability oversight council that will recommend to the Federal Reserve increasingly strict rules for capital, leverage, liquidity, risk management and other requirements as companies grow in size and complexity.

- Permanently increases the deposit insurance coverage to $250 thousand and allows depository institutions to pay interest on checking accounts.

- Requires publicly traded bank holding companies with assets of $10 billion or more to establish a risk committee responsible for enterprise-wide risk management practices.

- Limits and regulates, under the provisions of the Act known as the Volker Rule, a financial institution's ability to engage in proprietary trading or to own or invest in certain private equity and hedge funds.

Basel III

In September 2010, the Basel Committee on Banking Supervision proposed higher global minimum capital standards, including a minimum Tier 1 common capital ratio and additional capital and liquidity requirements. On July 2, 2013, the Federal Reserve Board approved a final rule to implement these reforms and changes required by the Dodd-Frank Act. This final rule was subsequently adopted by the OCC and the FDIC.

The final rule included new risk-based capital and leverage ratios, which were phased in from 2015 to 2019, and refined the definition of what constitutes "capital" for purposes of calculating those ratios. The new minimum capital level requirements applicable to the Company and First Mid Bank beginning in 2015 were: (i) a new common equity Tier 1 capital ratio of 4.5%; (ii) a Tier 1 capital ratio of 6%; (iii) a total capital ratio of 8%; and (iv) a Tier 1 leverage ratio of 4%. The rule also established a "capital conservation buffer" of 2.5% above the new regulatory minimum capital requirements, which must consist entirely of common equity Tier 1 capital and will result in the following minimum ratios: (i) a common equity Tier 1 capital ratio of 7.0%, (ii) a Tier 1 capital ratio of 8.5%, and (iii) a total capital ratio of 10.5%. The new capital conservation buffer requirement was phased in beginning in January 2016 at 0.625% of risk weighted assets and increased by that amount each year until fully implemented in January 2019. An institution is subject to limitations on paying dividends, engaging in share repurchases and paying discretionary bonuses if its capital level falls below the buffer amount.

The final rule also made three changes to the proposed rule of June 2012 that impacted the Company. First, the proposed rule required banking organizations to include accumulated other comprehensive income ("AOCI") in common equity tier 1 capital. AOCI includes accumulated unrealized gains and losses on certain assets and liabilities that have not been included in net income. Under existing general risk-based capital rules, most components of AOCI are not included in a banking organization's regulatory capital calculations. The final rule allowed community banking organizations to make a one-time election not to include these additional components of AOCI in regulatory capital and instead use the existing treatment under the general risk-based capital rules that excludes most AOCI components from regulatory capital. The Company made this election.

Second, the proposed rule modified the risk-weight framework applicable to residential mortgage exposures to require banking organizations to divide residential mortgage exposure into two categories in order to determine the applicable risk weight. The final rule, however, retained the existing treatment for residential mortgage exposures under the general risk-based capital rules.

Third, the proposed rule required banking organizations with total consolidated assets of less than $15 billion as of December 31, 2009, such as the Company, to phase out over ten years any trust preferred securities and cumulative perpetual preferred securities from its Tier 1 capital regulatory capital. The final rule, however, permanently grandfathered into Tier 1 capital of depository institution holding companies with total consolidated assets of less than $15 billion as of December 31, 2009, any trust preferred securities or cumulative perpetual preferred stock issued before May 19, 2010.

The Company

General. As a registered financial holding company under the BHCA that has elected to become a financial holding company under the GLB Act, the Company is subject to regulation by the Federal Reserve Board. In accordance with Federal Reserve Board policy, the Company is expected to act as a source of financial strength to First Mid Bank and to commit resources to support First Mid Bank in circumstances where the Company might not do so absent such policy. The Company is subject to inspection, examination, and supervision by the Federal Reserve Board.

Activities. As a financial holding company, the Company may affiliate with securities firms and insurance companies and engage in other activities that are financial in nature or incidental or complementary to activities that are financial in nature. A bank holding company that is not also a financial holding company is limited to

engaging in banking and such other activities as determined by the Federal Reserve Board to be so closely related to banking or managing or controlling banks as to be a proper incident thereto.

No Federal Reserve Board approval is required for the Company to acquire a company (other than a bank holding company, bank, or savings association) engaged in activities that are financial in nature or incidental to activities that are financial in nature, as determined by the Federal Reserve Board. However, the Company generally must give the Federal Reserve Board after-the-fact notice of these activities. Prior Federal Reserve Board approval is required before the Company may acquire beneficial ownership or control of more than 5% of the voting shares or substantially all of the assets of a bank holding company, bank, or savings association.

If any subsidiary bank of the Company ceases to be “well-capitalized” or “well-managed” under applicable regulatory standards, the Federal Reserve Board may, among other actions, order the Company to divest its depository institution. Alternatively, the Company may elect to conform its activities to those permissible for a bank holding company that is not also a financial holding company.

If any subsidiary bank of the Company receives a rating under the Community Reinvestment Act of less than “satisfactory”, the Company will be prohibited, until the rating is raised to “satisfactory” or better, from engaging in new activities or acquiring companies other than bank holding companies, banks, or savings associations.

Capital Requirements. Bank holding companies are required to maintain minimum levels of capital in accordance with Federal Reserve Board capital adequacy guidelines. The Federal Reserve Board’s capital guidelines establish the following minimum regulatory capital requirements for bank holding companies for 2019, which include the full phase in of the capital conservation buffer: a total capital to total risk-based capital ratio of not less than 10.50%, a Tier 1 risk-based ratio of not less than 8.50%, a common equity Tier 1 capital ratio of not less than 7.00%, and a Tier 1 leverage ratio of not less than 4.00%. For purposes of these capital standards, Tier 1 capital consists primarily of permanent stockholders’ equity, less intangible assets (other than certain mortgage servicing rights and purchased credit card relationships), and total capital means Tier 1 capital plus certain other debt and equity instruments which do not qualify as Tier 1 capital, limited amounts of unrealized gains on equity securities and a portion of the Company’s allowance for loan and lease losses.

The risk-based and leverage standards described above are minimum requirements, and higher capital levels will be required if warranted by the particular circumstances or risk profiles of individual banking organizations. For example, the Federal Reserve Board’s capital guidelines contemplate that additional capital may be required to take adequate account of, among other things, interest rate risk, or the risks posed by concentrations of credit, nontraditional activities or securities trading activities. Further, any banking organization experiencing or anticipating significant growth would be expected to maintain capital ratios, including tangible capital positions (i.e., Tier 1 capital less all intangible assets), well above the minimum levels.

As of December 31, 2022, the Company had regulatory capital, calculated on a consolidated basis, in excess of the Federal Reserve Board’s minimum requirements, and its capital ratios exceeded those required for categorization as well-capitalized under the capital adequacy guidelines established by bank regulatory agencies with a total risk-based capital ratio of 15.20%, a Tier 1 risk-based ratio of 12.40%, a common equity Tier 1 capital ratio of 12.03% and a leverage ratio of 9.68%.

Control Acquisitions. The Change in Bank Control Act prohibits a person or group of people from acquiring “control” of a bank holding company unless the Federal Reserve Board has been notified and has not objected to the transaction. Under a rebuttable presumption established by the Federal Reserve Board, the acquisition of 10% or more of a class of voting stock of a bank holding company with a class of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended, such as the Company, would, under the circumstances set forth in the presumption, constitute acquisition of control of the Company. In addition, any company is required to obtain the approval of the Federal Reserve Board under the BHCA before acquiring 25% (5% in the case of an acquirer that is a bank holding company) or more of the outstanding common of the Company, or otherwise obtaining control of a “controlling influence” over the Company or First Mid Bank.

Interstate Banking and Branching. The Dodd-Frank Act expands the authority of banks to engage in interstate branching. The Dodd-Frank Act allows a state or national bank to open a de novo branch in another state if the law of the state where the branch is to be located would permit a state bank chartered by that state to open the branch.

Privacy and Security. The GLB Act establishes a minimum federal standard of financial privacy by, among other provisions, requiring banks to adopt and disclose privacy policies with respect to consumer information and setting forth certain rules with respect to the disclosure to third parties of consumer information. The Company has adopted and disseminated its privacy policies pursuant to the GLB Act. Regulations adopted under the GLB Act set standards for protecting the security, confidentiality, and integrity of customer information, and require notice to regulators, and in some cases, to customers, in the event of security breaches. A number of states have adopted their own statutes requiring notification of security breaches. In addition, the GLB Act requires the disclosure of agreements reached with community groups that relate to the CRA, and contains various other provisions designed to improve the delivery of financial services to consumers while maintaining an appropriate level of safety in the financial services industry.

First Mid Bank

General. First Mid Bank is a national bank, chartered under the National Bank Act. The FDIC insures the deposit accounts of the banks. The Bank is a member of the Federal Reserve System and is subject to the examination, supervision, reporting and enforcement requirements of the OCC, as the primary federal regulator of national banks, and the FDIC, as administrator of the deposit insurance fund.

Deposit Insurance. As an FDIC-insured institution, banks are required to pay deposit insurance premium assessments to the FDIC. A number of requirements with respect to the FDIC insurance system have affected results, including insurance assessment rates.

The Company expensed $1,805,000, $1,604,000 and $1,309,000 for its insurance assessment during 2022, 2021, and 2020 respectively.

OCC Assessments. All national banks are required to pay supervisory fees to the OCC to fund the operations of the OCC. The amount of such supervisory fees is based upon each institution’s total assets, including consolidated subsidiaries, as reported to the OCC. During the years ended December 31, 2022, 2021, and 2020 the Company expensed supervisory fees totaling $868,000, $745,000, and $572,000, respectively. Changes in total expense are due to changes in assessment rates and increases in total assets of First Mid Bank.

Capital Requirements. The banking regulators established the following minimum capital standards for banks as of 2019, which include the full phase in of the capital conservation buffer in a total capital to total risk-based capital ratio of not less than 10.50%, a Tier 1 risk-based ratio of not less than 8.50%, a common equity Tier 1 capital ratio of not less than 7.00%, and a Tier 1 leverage ratio of not less than 4.00%. For purposes of these capital standards, Tier 1 capital and total capital consists of substantially the same components as Tier 1 capital and total capital under the Federal Reserve Board's capital guidelines for bank holding companies (See "The Company—Capital Requirements").

The capital requirements described above are minimum requirements. Higher capital levels will be required if warranted by the particular circumstances or risk profiles of individual institutions. For example, the banking regulators provide that additional capital may be required to take adequate account of, among other things, interest rate risk or the risks posed by concentrations of credit, nontraditional activities, or securities trading activities.

During the year ended December 31, 2022, First Mid Bank was not required to increase capital to an amount in excess of the minimum regulatory requirements, and capital ratios exceeded those required for categorization as well-capitalized under the capital adequacy guidelines established by bank regulatory agencies. First Mid Bank's total risk-based capital ratio was 14.18%, Tier 1 risk-based ratio was 13.17%, common equity Tier 1 ratio was 13.17% and leverage ratio was 10.22%.

Prompt Corrective Action. Federal law provides the federal banking regulators with broad power to take prompt corrective action to resolve the problems of undercapitalized institutions. The extent of the regulators' powers depends on whether the institution in question is "well-capitalized," "adequately- capitalized," "undercapitalized," "significantly undercapitalized" or "critically undercapitalized." Depending upon the capital category to which an institution is assigned, the regulators' corrective powers include: requiring the submission of a capital restoration plan; placing limits on asset growth and restrictions on activities; requiring the institution to issue additional capital stock (including additional voting stock) or to be acquired; restricting transactions with affiliates; restricting the interest rate the institution may pay on deposits; ordering a new election of directors of the institution; requiring that senior executive officers or directors be dismissed; prohibiting the institution from accepting deposits from correspondent banks; requiring the institution to divest certain subsidiaries; prohibiting the payment of principal or interest on subordinated debt; and in the most severe cases, appointing a conservator or receiver for the institution.

Dividends. The National Bank Act impose limitations on the amount of dividends that may be paid by a bank. Generally, a bank may pay dividends out of its undivided profits, in such amounts and at such times as the bank's board of directors deems prudent. Without prior OCC approval, however, a national bank may not pay dividends in any calendar year which, in the aggregate, exceed the bank's year-to-date net income plus the bank's adjusted retained net income for the two preceding years.

The payment of dividends by any financial institution or its holding company is affected by the requirement to maintain adequate capital pursuant to applicable capital adequacy guidelines and regulations, and a financial institution generally is prohibited from paying any dividends if, following payment thereof, the institution would be undercapitalized. As described above, First Mid Bank exceeded minimum capital requirements under applicable guidelines as of December 31, 2022. As of December 31, 2022, approximately $82.3 million was available to be paid as dividends to the Company by First Mid Bank. Notwithstanding the availability of funds for dividends, however, the OCC may prohibit the payment of any dividends if the OCC, as applicable, determines that such payment would constitute an unsafe or unsound practice.

Affiliate and Insider Transactions. First Mid Bank is subject to certain restrictions under federal law, including Regulation W of the Federal Reserve Board, on extensions of credit to the Company and its subsidiaries, on investments in the stock or other securities of the Company and its subsidiaries and the acceptance of the stock or other securities of the Company or its subsidiaries as collateral for loans. Certain limitations and reporting requirements are also placed on extensions of credit by First Mid Bank to its directors and officers, to directors and officers of the Company and its subsidiaries, to principal stockholders of the Company, and to "related interests" of such directors, officers, and principal stockholders.

First Mid Bank is subject to restrictions under federal law that limits certain transactions with the Company, including loans, other extensions of credit, investments, or asset purchases. Such transactions by a banking subsidiary with any one affiliate are limited in amount to 10% of the bank's capital and surplus and, with all affiliates together, to an aggregate of 20% of the bank's capital and surplus. Furthermore, such loans and extensions of credit, as well as certain other transactions, are required to be secured in specified amounts. These and certain other transactions, including any payment of money to the Company, must be on terms and conditions that are or in good faith would be offered to nonaffiliated companies.

In addition, federal law and regulations may affect the terms upon which any person becoming a director or officer of the Company or one of its subsidiaries or a principal stockholder of the Company may obtain credit from banks with which First Mid Bank maintains a correspondent relationship.

Safety and Soundness Standards. The federal banking agencies have adopted guidelines that establish operational and managerial standards to promote the safety and soundness of federally insured depository institutions. The guidelines set forth standards for internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, compensation, fees and benefits, asset quality and earnings. In general, the guidelines prescribe the goals to be achieved in each area, and each institution is responsible for establishing its own procedures to achieve those goals. If an institution fails to comply with any of the standards set forth in the guidelines, the institution's primary federal regulator may require the institution to submit a plan for achieving and maintaining compliance. The preamble to the guidelines states that the agencies expect to require a compliance plan from an institution whose failure to meet one or more of the guidelines are of such severity that it could threaten the safety and soundness of the institution. Failure to submit an acceptable plan, or failure to comply with a plan that has been accepted by the appropriate federal regulator, would constitute grounds for further enforcement action.

Community Reinvestment Act. First Mid Bank is subject to the Community Reinvestment Act (CRA). The CRA and the regulations issued thereunder are intended to encourage banks to help meet the credit needs of their service areas, including low and moderate income neighborhoods, consistent with the safe and sound operations of the banks. These regulations also provide for regulatory assessment of a bank's record in meeting the needs of its service area when considering applications to establish branches, merger applications and applications to acquire the assets and assume the liabilities of another bank. The Financial Institutions Reform, Recovery and Enforcement Act of 1989 requires federal banking agencies to make public a rating of a bank's performance under the CRA. In the case of a bank holding company, the CRA performance record of its bank subsidiaries is reviewed by federal banking agencies in connection with the filing of an application to acquire ownership or control of shares or assets of a bank or thrift or to merge with any other bank holding company. An unsatisfactory record can substantially delay or block the transaction. First Mid Bank received satisfactory CRA ratings from its regulator in its most recent CRA examination.

Consumer Laws and Regulations. In addition to the laws and regulations discussed above, First Mid Bank is also subject to certain consumer laws and regulations that are designed to protect consumers in transactions with banks. While the list set forth herein is not exhaustive, these laws and regulations include the Truth in Lending Act, the Truth in Savings Act, the Equal Credit Opportunity Act, the Fair Housing Act, the Fair Credit Reporting Act, the Fair and Accurate Credit Transactions Act and the Real Estate Settlement Procedures Act, among others. These laws and regulations mandate certain disclosure requirements and regulate the manner in which financial institutions must deal with customers when taking deposits, making loans to or marketing to or engaging in other types of transactions with such customers. Failure to comply with these laws and regulations could lead to substantial penalties, operating restrictions, and reputational damage to the financial institution.

Supplemental Item – Executive Officers of the Registrant

The executive officers of the Company are elected annually by the Company's Board of Directors and are identified below.

Name (Age)	Position With Company
Joseph R. Dively (63)	Chairman of the Board of Directors, President and Chief Executive Officer
Michael L. Taylor (54)	Senior Executive Vice President and Chief Operating Officer
Matthew K. Smith (48)	Executive Vice President and Chief Financial Officer
Eric S. McRae (57)	Executive Vice President
Bradley L. Beesley (51)	Executive Vice President
Laurel G. Allenbaugh (62)	Executive Vice President
Clay M. Dean (48)	Executive Vice President
Amanda D. Lewis (43)	Executive Vice President
Rhonda Gatons (51)	Executive Vice President
David Hiden (60)	Senior Vice President
Jason Crowder (52)	Senior Vice President
Jordan Read (33)	Senior Vice President
Megan McElwee (35)	Senior Vice President
Anya Schuetz (48)	Vice President

Joseph R. Dively, age 63, is the Chairman of the Board of Directors, President and Chief Executive Officer of the Company since January 1, 2014 and the President of First Mid Bank since May 2011. Prior to assuming these positions in the Company, he was the Senior Executive Vice President of the Company beginning in May 2011. He was with Consolidated Communications Holdings, Inc. in Mattoon, Illinois from 2003 to May 2011.

Michael L. Taylor, age 54, has been Senior Executive Vice President since 2014 and Chief Operating Officer since July 2017. He served as Chief Financial Officer of the Company from 2000 to 2017. He served as Executive Vice President from 2007 to 2014 and as Vice President from 2000 to 2007. He was with AMCORE Bank in Rockford, Illinois from 1996 to 2000.

Matthew K. Smith, age 48, has been Executive Vice President of the Company since November 2016 and Chief Financial Officer since July 2017. He served as Director of Finance from November 2016 to July 2017. He was Treasurer and Vice President of Finance and Investor Relations with Consolidated Communications, Inc from 1997 to 2016 and with Marine Bank in Springfield, Illinois prior.

Eric S. McRae, age 57, has been Executive Vice President of the Company and Executive Vice President, Chief Lending Officer of First Mid Bank since January 2022. He was Chief Credit Officer from January 2017 to December 2021. He served as Senior Lender of First Mid Bank from December 2008 to December 2016 and he served as President of the Decatur region from 2001 to December 2008.

Bradley L. Beesley, age 51, has been Executive Vice President of the Company and Chief Trust & Wealth Management Officer of First Mid Bank since March 2015 and First Mid Wealth Management Company since July 2018. He served as Senior Vice President from May 2007 to March 2015.

Laurel G. Allenbaugh, age 62, has been Executive Vice President of the Company and Executive Vice President, Chief Operations Officer of First Mid Bank since April 2008. She served as Vice President of Operations from February 2000 to April 2008. She served as Controller of the Company and First Mid Bank from 1990 to February 2000.

Clay M. Dean, age 48, has been Executive Vice President of the Company since January 2019 and Senior Vice President of the Company since 2010 and Senior Vice President and Chief Insurance Services Officer of the First Mid Bank and Chief Executive Officer of First Mid Insurance since September 2014. He served as Senior Vice President, Chief Deposit Services Officer of First Mid Bank from November 2012 to September 2014 and as Senior Vice President, Director of Treasury Management of First Mid Bank from 2010 to 2012.

Amanda D. Lewis, age 43, has been Executive Vice President of the Company since January 2019 and Senior Vice President of the Company and Senior Vice President, Retail Banking Officer of First Mid Bank since September 2014. She served as Vice President, Director of Marketing from 2001 until September 2014.

Rhonda Gatons, age 51, has been Execuitve Vice President of the Company since April of 2022 and Director of Human Resources since March 2016. Prior to joining the Company, she was the Director of Human Resources at Midland States Bank.

David Hiden, age 60, has been Senior Vice President, Chief Information Officer of the Company since July 2018.

Jason Crowder, age 52 has been Senior Vice President and General Counsel of the Company since August 2019. Prior to joining the Company, he was the Corporate Counsel of Petersen Health Care, Inc., from 2008 to July 2019, and an attorney at Heller, Holmes & Associates from 1996 to 2008.

Jordan Read, age 33, has been Senior Vice President and Chief Risk Officer of First Mid Bank since August 2021. He was Director of Internal Audit of Enterprise Bank and Trust from 2018 to 2021.

Megan McElwee, age 35, has been Senior Vice President and Chief Credit Officer since January 2022. She served as Vice President and Director of Credit Administration from 2021 to 2022, Credit Administration Manager from 2017 to 2021, and Credit Officer from 2011 to 2017.

Anya Schuetz, age 48, has been Vice President and Director of Project Management since 2013.

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 credit risk, interest rate and liquidity risk, operational risk, risks from economic and 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.

Credit Risks

Loan customers or other counterparties may not be able to perform their contractual obligations resulting in a negative impact on the Company's earnings. Overall economic conditions affecting businesses and consumers, including the current difficult economic conditions and market disruptions, could impact the Company's credit losses. In addition, real estate valuations could also impact the Company's credit losses as the Company maintains $3.3 billion in loans secured by commercial, agricultural, and residential real estate. A significant decline in real estate values could have a negative effect on the Company's financial condition and results of operations. In addition, the Company's total loan balances by industry exceeded 25% of total risk-based capital for each of four industries as of December 31, 2022. A listing of these industries is contained in under "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations -- Loans" herein. A significant change in one of these industries such as a significant decline in agricultural crop prices, could adversely impact the Company's credit losses.

Deterioration in the real estate market could lead to losses, which could have a material adverse effect on the business, financial condition and results of operations or the Company. 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. Increases in commercial and consumer delinquency levels or declines in real estate market values would require increased net charge-offs and increases in the allowance for loan and lease losses, which could have a material adverse effect on our business, financial condition and results of operations and prospects.

The allowance for credit losses may prove inadequate or be negatively affected by credit risk exposures. The Company's business depends on the creditworthiness of its customers. Management periodically reviews the allowance for loan and lease losses for adequacy considering economic conditions and trends, collateral values, and credit quality indicators, including past charge-off experience and levels of past due loans and nonperforming assets. There is no certainty that the allowance for credit losses will be adequate over time to cover credit losses in the portfolio because of unanticipated adverse changes in the economy, market conditions or events adversely affecting specific customers, industries, or markets. If the credit quality of the customer base materially decreases, if the risk profile of a market, industry or group of customers changes materially, or if the allowance for credit losses is not adequate, the Company's business, financial condition, liquidity, capital, and results of operations could be materially adversely affected.

The Company depends on the accuracy and completeness of information furnished by and on behalf of our customers and counterparties. In deciding whether to extend credit or enter into other transactions, the Company may rely on information furnished by or on behalf of customers and counterparties, including financial statements, credit reports, and other financial information. The Company may also rely on representations of those customers, counterparties, or other third parties, such as independent auditors, as to the accuracy and completeness of that information. Reliance on inaccurate or misleading financial statements, credit reports, or other financial information could cause the Company to enter into unfavorable transactions, which could have a material adverse effect on financial condition and results of operations.

Interest Rate and Liquidity Risks

Changes in interest rates may negatively affect our earnings. Changes in market interest rates and prices may adversely affect the Company's financial condition or results of operations. The Company's net interest income, its largest source of revenue, is highly dependent on achieving a positive spread between the interest earned on loans and investments and the interest paid on deposits and borrowings. Changes in interest rates could negatively impact the Company's ability to attract deposits, make loans, and achieve a positive spread resulting in compression of the net interest margin.

Declines in the value of securities held in the investment portfolio may negatively affect the Company's earnings and capital. The value of an investment in the portfolio could decrease due to changes in market factors. The market value of certain investment securities is volatile and future declines or other-than-temporary impairments could materially adversely affect the Company's future earnings and capital. Continued volatility in the market value of certain of the investment securities, whether caused by changes in market perceptions of credit risk, as reflected in the expected market yield of the security, or actual defaults in the portfolio could result in significant fluctuations in the value of the securities. This could have a material adverse impact on the Company's accumulated other comprehensive loss and shareholders' equity depending upon the direction of the fluctuations.

Furthermore, future downgrades or defaults in these securities could result in future classifications as other-than-temporarily impaired. The Company has invested in trust preferred securities issued by financial institutions and insurance companies, corporate securities of financial institutions, and stock in the Federal Home Loan Bank of Chicago and Federal Reserve Bank of Chicago. Deterioration of the financial stability of the underlying financial institutions for these investments could result in other-than-temporary impairment charges to the Company and could have a material impact on future earnings. For further discussion of the Company's investments, see Note 4 – "Investment Securities."

The Company may not have sufficient cash or access to cash to satisfy current and future financial obligations, including demands for loans and deposit withdrawals, funding operating costs and for other corporate purposes. This type of liquidity risk arises whenever the maturities of financial instruments included in assets and liabilities differ. The Company's liquidity can be affected by a variety of factors, including general economic conditions, market disruption, operational problems affecting third parties or the Company, unfavorable pricing, competition, the Company's credit rating and regulatory restrictions. (See "Liquidity" herein for management's actions to mitigate this risk.)

If the Company were unable to borrow funds through access to capital markets, it may not be able to meet the cash flow requirements of its depositors, creditors, and borrowers, or the operating cash needed to fund corporate expansion and other corporate activities. As seen starting in the middle of 2007, significant turmoil and volatility in worldwide financial markets can result in a disruption in the liquidity of financial markets and could directly impact the Company to the extent it needs to access capital markets to raise funds to support its business and overall liquidity position. These types of situations could affect the cost of such funds or the Company's ability to raise such funds. If the Company were unable to access any of these funding sources when needed, it might be unable to meet customers' needs, which could adversely impact its financial condition, results of operations, cash flows, and level of regulatory-qualifying capital. For further discussion, see the "Liquidity" section.

Operational Risks

A failure in or breach of the Company's operational or security systems, or those of its third-party service providers, including as a result of cyber-attacks, could disrupt the Company's business, result in unintentional disclosure or misuse of confidential or proprietary information, damage the Company's reputation, increase our costs, and cause losses. As a financial institution, the Company's operations rely heavily on the secure processing, storage, and transmission of confidential and other information on its computer systems and networks. Any failure, interruption or breach in security or operational integrity of these systems could result in failures or disruptions in the Company's online banking system, customer relationship management, general ledger, deposit and loan servicing and other systems. The security and integrity of these systems could be threatened by a variety of interruptions or information security breaches, including those caused by computer hacking, cyber-attacks, electronic fraudulent activity, or attempted theft of financial assets. Management cannot assert that any such failures, interruption or security breaches will not occur, or if they do occur that they will be adequately addressed. While certain protective policies and procedures are in place, the nature and sophistication of the threats continue to evolve. The Company may be required to expend significant additional resources in the future to modify and enhance these protective measures.

Additionally, the Company faces the risk of operational disruption, failure, termination, or capacity constraints of any of the third parties that facilitate its business activities, including exchanges, clearing agents, clearing houses or other financial intermediaries. Such parties could also be the source of an attack on, or breach of, its operational systems. Any failures, interruptions or security breaches in the Company's information systems could damage its reputation, result in a loss of customer business, result in a violation of privacy or other laws, or expose us to civil litigation, regulatory fines or losses not covered by insurance.

If the Company's stock price declines from levels at December 31, 2022, management will evaluate the goodwill balance for impairment, and if the values of the business has declined, the Company could recognize an impairment charge for its goodwill. Management performed its annual goodwill impairment assessment as of September 30, 2022. Based on these analyses, management concluded that the fair value of the Company's reporting units exceeded the fair value of its assets and liabilities and, therefore, goodwill was not considered impaired. It is possible that management's assumptions and conclusions regarding the valuation of the Company's lines of business could change adversely, which could result in the recognition of impairment for goodwill, which could have a material effect on the Company's financial position and future results of operations.

Human error, inadequate or failed internal processes and systems, and external events may have adverse effects on the Company. Operational risk includes compliance or legal risk, which is the risk of loss from violations of, or noncompliance with, laws, rules, regulations, prescribed practices, or ethical standards. Operational risk also encompasses transaction risk, which includes losses from fraud, error, the inability to deliver products or services, and loss or theft of information. Losses resulting from operational risk could take the form of explicit charges, increased operational costs, harm to the Company's reputation or forgone opportunities. Any of these could potentially have a material adverse effect on the Company's reputation, financial condition, and results of operations.

The Company is exposed to various business risks that could have a negative effect on the financial performance of the Company. These risks include changes in customer behavior, changes in competition, new litigation or changes to existing litigation, claims and assessments, environmental liabilities, real or threatened acts of war or terrorist activity, adverse weather, changes in accounting standards, legislative or regulatory changes, taxing authority interpretations, and an inability on the Company's part to retain and attract skilled employees.

In addition to these risks identified by the Company, investments in the Company's common stock involve risk. The market price of the Company's common stock may fluctuate significantly in response to a number of factors including volatility of stock market prices and volumes, rumors or erroneous information, changes in market valuations of similar companies, changes in securities analysts' estimates of financial performance, and variations in quarterly or annual operating results.

Economic and Market Conditions Risks

Difficult economic conditions and market disruption have adversely impacted the banking industry and financial markets generally and may again significantly affect the business, financial condition, or results of operations of the Company. The Company's success depends, to a certain extent, upon economic and political conditions, local and national, as well as governmental monetary policies. Conditions such as inflation, recession, unemployment, changes in interest rates, money supply and other factors beyond the Company's control may adversely affect its asset quality, deposit levels and loan demand and, therefore, its earnings.

The Company's profitability depends significantly on economic conditions in the geographic region in which it operates. A large percentage of the Company's loans are to individuals and businesses in Illinois, consequently, any decline in the economy of this market area could have a materially adverse effect on the Company's financial condition and results of operations.

Decline in the strength and stability of other financial institutions may adversely affect the Company's business. The actions and commercial soundness of other financial institutions could affect the Company's ability to engage in routine funding transactions. Financial services institutions are interrelated as a result of clearing, counterparty or other relationships. The Company has exposure to different counterparties and executes transactions with various counterparties in the financial industry. Recent defaults by financial services institutions, and even rumors or questions about one or more financial services institutions or the financial services industry in general, led to market-wide liquidity problems in recent years and could lead to losses or defaults by the Company or by other institutions. Many of these transactions expose the Company to credit risk in the event of default of its counterparty or client. Any such losses could materially and adversely affect the Company's results of operations.

The Company is subject to Environmental, Social and Governance ("ESG") risks that could adversely affect its reputation and the market price of its securities. The Company is subject to a variety of risks arising from ESG matters. ESG matters include climate risk, hiring practices, the diversity of the work force, and racial and social justice issues involving the Company's personnel, customers and third parties with whom it otherwise does business. Risks arising from ESG matters may adversely affect, among other things, reputation and the market price of the Company's securities. Further, the Company may be exposed to negative publicity based on the identity and activities of those to whom it lends and with which it otherwise does business and the public's view of the approach and performance of its customers and business partners with respect to ESG matters. Any such negative publicity could arise from adverse news coverage in traditional media and could also spread through the use of social media platforms. The Company's relationships and reputation with its existing and prospective customers and third parties with which it does business could be damaged if it were to become the subject of any such negative publicity. This, in turn, could have an adverse effect on the Company's ability to attract and retain customers and employees and could have a negative impact on the market price for securities. Investors have begun to consider the steps taken and resources allocated by financial institutions and other commercial organizations to address ESG matters when making investment and operational decisions. Certain investors are beginning to incorporate the business risks of climate change and the adequacy of companies' responses to the risks posed by climate change and other ESG matters into their investment theses. These shifts in investing priorities may result in adverse effects on the market price of the Company's securities to the extent that investors determine that the Company has not made sufficient progress on ESG matters.

The Company's business could suffer if it fails to attract and retain skilled people. The Company's success depends, in large part, on its ability to attract and retain key people. Competition for the best employees in most of the activities the Company engages in can be intense. The Company may not be able to hire the best people for key roles or retain them. In addition, the transition to increased work-from-home arrangements, which is likely to survive the COVID-19 pandemic for many companies, may exacerbate the challenges of attracting and retaining talented and diverse employees as job markets may be less constrained by physical geography. Our current or future approach to in-office and work-from-home arrangements may not meet the needs or expectations of current or prospective employees or may not be perceived as favorable compared to the arrangements offered by competitors, which could adversely affect the Company's ability to attract and retain employees. The loss of any key personnel or an inability to continue to attract, retain, and motivate key personnel could adversely affect the Company's business.

Climate change could have a material negative impact on the Company and customers. The Company's business, as well as the operations and activities of its customers, could be negatively impacted by climate change. Climate change presents both immediate and long-term risks to the Company and its customers, and these risks are expected to increase over time. Climate change presents multi-faceted risks, including: operational risk from the physical effects of climate events on the Company and its customers' facilities and other assets; credit risk from borrowers with significant exposure to climate risk; transition risks associated with the transition to a less carbon-dependent economy; and reputational risk from stakeholder concerns about the Company's practices related to climate change, the Company's carbon footprint, and the Company's business relationships with clients who operate in carbon-intensive industries. Federal and state banking regulators and supervisory authorities, investors, and other stakeholders have increasingly viewed financial institutions as important in helping to address the risks related to climate change both directly and with respect to their customers, which may result in financial institutions coming under increased pressure regarding the disclosure and management of their climate risks and related lending and investment activities Ongoing legislative or regulatory uncertainties and changes regarding climate risk management and practices may result in higher regulatory, compliance, credit, and reputational risks and costs. The risks associated with climate change are changing and evolving in an escalating fashion, making them difficult to assess due to limited data and other uncertainties. The Company could experience increased expenses resulting from strategic planning, litigation, and technology and market changes, and reputational harm as a result of negative public sentiment, regulatory scrutiny, and reduced investor and stakeholder confidence due to the Company's response to climate change and its climate change strategy, which, in turn, could have a material negative impact on business, results of operations, and financial condition.

Changes in the method pursuant to which the LIBOR and other benchmark rates are determined could adversely impact the Company's business and results of operations. Our floating-rate funding, certain hedging transactions and certain of the products that we offer, such as floating-rate loans and mortgages, determine the applicable interest rate or payment amount by reference to a benchmark rate, such as LIBOR, or to an index, currency, basket, or other financial metric. LIBOR and certain other benchmark rates are the subject of recent national, international, and other regulatory guidance and proposals for reform. In July 2017, the Chief Executive of the Financial Conduct Authority ("FCA") announced that the FCA intends to stop persuading or compelling banks to submit rates for the calculation of LIBOR after 2021. However, the administrator of LIBOR has proposed to extend publication of the most commonly used U.S. Dollar LIBOR settings until June 30, 2023 and will cease publishing other LIBOR settings on December 31, 2021. The U.S. federal banking agencies have issued guidance strongly encouraging banking organizations to cease using the U.S. Dollar LIBOR as a reference rate in "new" contracts as soon as practicable and in any event by December 31, 2021. It is not possible to predict whether LIBOR will continue to be viewed as an acceptable market benchmark, which rate or rates may become accepted alternatives to LIBOR, or what the effect of any such changes in views or alternatives may be on the markets for LIBOR-linked financial instruments. While there is no consensus on what rate or rates may become accepted alternatives to LIBOR, the Alternative Reference Rates Committee, a steering committee comprised of U.S. financial market participants, selected by the Federal Reserve Bank of New York, started in May 2018 to publish the Secured Overnight Financing Rate ("SOFR") as an alternative to LIBOR. SOFR is a broad measure of the cost of overnight borrowings collateralized by Treasury securities that was selected by the Alternative Reference Rate Committee due to the depth and robustness of the Treasury repurchase market. At this time, it is impossible to predict whether SOFR will become a accepted alternative to LIBOR. The discontinuation of LIBOR, changes in LIBOR, or changes in market perceptions of the acceptability of LIBOR as a benchmark could result in changes to our risk exposures (for example, if the anticipated discontinuation of LIBOR adversely affects the availability or cost of floating-rate funding and, therefore, our exposure to fluctuations in interest rates) or otherwise result in losses on a product or having to pay more or receive less on securities that we own or have issued. In addition, such uncertainty could result in pricing volatility and increased capital requirements, loss of market share in certain products, adverse tax or accounting impacts, and compliance, legal and operational costs and risks associated with client disclosures, discretionary actions taken or negotiation of fallback provisions, systems disruption, business continuity, and model disruption.

Other Business Risks

The ongoing COVID-19 pandemic and the measures intended to prevent its spread have had and may continue to have an adverse effect on the Company's operations, results of operations and financial condition, and the severity of these adverse effects depend on future developments which are highly uncertain and difficult to predict. The global health concerns related to COVID-19 and government actions implemented to reduce the spread of the virus have had an adverse impact on the macroeconomic environment. COVID-19 has significantly increased economic uncertainty and reduced economic activity. The outbreak has resulted in authorities implementing numerous measures to try to contain the virus, such as travel bans and restrictions, quarantines, shelter in place or total lock-down orders and business limitations and shutdowns. These measures have significantly contributed to rising unemployment and negatively impacted consumer and business spending. The United States government has taken steps to mitigate some of the more severe anticipated economic effects of the virus, including the passage of the CARES Act, but there is no assurance that these steps will be effective or achieve the desired positive economic results in a timely fashion. COVID-19 has impacted, and is likely to further adversely impact, the workforce and operations of the Company, and the operations of our borrowers, customers, and business partners. In particular, we may experience financial losses due to various operational factors impacting us or our borrowers, customers, or business partners, including but not limited to:

- credit losses resulting from financial stress being experienced by our borrowers as a result of the outbreak and related governmental actions, particularly in the hospitality, energy, retail, and restaurant industries, but across other industries as well;
- declines in collateral values;
- third party disruptions, including outages at network providers and other suppliers;
- increased cyber and payment fraud risk, as cybercriminals attempt to profit from the disruption, given increased online and remote activity; and
- operational failures due to changes in our normal business practices necessitated by the outbreak and related governmental actions.

These factors may remain prevalent for a significant period and may continue to adversely affect the Company, results of operations and financial condition even after the COVID-19 outbreak has subsided. The extent to which the coronavirus outbreak impacts the Company's operations, results of operations and financial condition will depend on future developments, which are highly uncertain and are difficult to predict, including, but not limited to, the duration and spread of the outbreak, its severity, the actions to contain the virus or treat its impact, and how quickly and to what extent normal economic and operating conditions can resume. Even after the COVID-19 outbreak has subsided, we may continue to experience adverse impacts to our business as a result of the virus's global economic impact, including the availability of credit, adverse impacts on our liquidity and any recession that has occurred or may occur in the future. There are no comparable recent events that provide guidance as to the effect the spread of COVID-19 as a global pandemic may have, and, as a result, the ultimate impact of the outbreak is highly uncertain and subject to change. The full extent of the impacts on the Company's operations or the global economy as a whole is not yet known. However, the effects could have a material impact on the Company's results of operations and heighten other of our known risks.

The Company may issue additional common stock or other equity securities in the future which could dilute the ownership interest of existing stockholders. To maintain capital at desired or regulatory-required levels, to replace existing capital, or to complete acquisitions the Company may be required to issue additional shares of common stock, or securities convertible into, exchangeable for or representing rights to acquire shares of common stock. The Company may sell these shares at prices below the current market price of shares, and the sale of these shares may significantly dilute stockholder ownership. The Company could also issue additional shares in connection with acquisitions of other financial institutions.

If the Company is unable to make favorable acquisitions or successfully integrate our acquisitions, the Company's growth could be impacted. In the past several years, the Company has completed acquisitions of banks, bank branches and other businesses. We may continue to make such acquisitions in the future. When the Company evaluates acquisition opportunities, the Company evaluates whether the target institution has a culture similar to the Company, experienced management, and the potential to improve the financial performance of the Company. If the Company fails to successfully identify, complete, and integrate favorable acquisitions, the Company could experience slower growth. Acquiring other banks, bank branches or businesses involves various risks commonly associated with acquisitions, including, among other things: potential exposure to unknown or contingent liabilities or asset quality issues of the target institution, difficulty and expense of integrating the operations and personnel of the target institution, potential disruption to the Company (including diversion of management's time and attention), difficulty in estimating the value of the target institution, and potential changes in banking or tax laws or regulations that may affect the target institution.

The Company and the banking industry are subject to government regulation, legislation, and policy. Government regulation, legislation and policy affect the Company and the banking industry as a whole, including the Company's business and results of operations. The Company's results of operations could be adversely affected by changes in how existing regulations are interpreted or applied by government agencies, or by the adoption of new government regulation, legislation, and policy. These changes may require the Company to invest significant funds and management attention and resources in order to reach compliance. In addition, any enforcement matters could impact supervisory and CRA ratings, which may restrict or limit the Company's activities.

The Company operates in a highly competitive industry and market area. The Company faces substantial competition in all areas of its operations from a variety of different competitors, both within and beyond its principal markets, many of which are larger and may have more financial resources. Such competitors primarily include national, regional, and internet banks within the various markets in which the Company operates. The Company also faces competition from many other types of financial institutions, including, without limitation, savings and loans, credit unions, finance companies, brokerage firms, insurance companies, and other financial intermediaries. The financial services industry could become even more competitive as a result of legislative and regulatory changes and continued consolidation.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The Company's headquarters is located at 1421 Charleston Avenue, Mattoon Illinois. This location is also used by the deposit operations department of First Mid Bank. In addition, the Company owns facilities located at 1500 Wabash Avenue, Mattoon, Illinois, and 1420 Wabash Avenue, Mattoon, Illinois, which are used by branch support operations, and 1100 Broadway Avenue, Mattoon, Illinois which is used by loan operations, and a facility located at 1321 Charleston Avenue, Mattoon, Illinois which is used by First Mid Wealth Management Company.

The main office of First Mid Bank is located at 1515 Charleston Avenue, Mattoon, Illinois and is owned by First Mid Bank. First Mid Bank also owns a building located at 1520 Charleston Avenue, which is used by First Mid Insurance, and by First Mid Bank for back room operations. First Mid Bank also conducts business through numerous facilities, owned and leased, located in twenty-four counties throughout Illinois, six throughout Missouri, and one county in Texas. Of the sixty-six other banking offices operated by First Mid Bank, forty-nine are owned and seventeen are leased from non-affiliated third parties. First Mid Bank also has a loan production office and an agency finance office in metro Indianapolis.

None of the properties owned by the Company are subject to any major encumbrances. The Company believes these facilities are suitable and adequate to operate its banking and related business. The net investment of the Company and subsidiaries in real estate and equipment at December 31, 2022 was $90.5 million.

ITEM 3. 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 4. MINE SAFETY DISCLOSURES

Not Applicable.

PART II

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

The Company's common stock is included for quotation on the NASDAQ Stock Market, LLC under the trading symbol "FMBH".

The Company's shareholders are entitled to receive dividends as are declared by the Board of Directors, which considered quarterly payment of dividends during 2022. The ability of the Company to pay dividends, as well as fund its operations, is dependent upon receipt of dividends from First Mid Bank. Regulatory authorities limit the amount of dividends that can be paid by First Mid Bank without prior approval from such authorities. For further discussion of the Bank's dividend restrictions, see Item1 – "Business" – "First Mid Bank" – "Dividends" and Note 16 – "Dividend Restrictions" herein.

The following table summarizes share repurchase activity for the fourth quarter of 2022:

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 at End of Period
October 1, 2022 – October 31, 2022	—	$ —	—	$ 4,543,000
November 1, 2022 – November 30, 2022	—	—	—	4,543,000
December 1, 2022 – December 31, 2022	10,385	31.75	10,385	4,066,000
Total	10,385	$ 31.75	10,385	$ 4,066,000

All of the repurchase activity that occurred during 2022 resulted from shares withheld to cover taxes on employee stock vesting. There were no other shares repurchased during 2022. 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.

ITEM 6. [Reserved]

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

The following discussion and analysis are intended to provide a better understanding of the consolidated financial condition and results of operations of the Company and its subsidiaries years ended December 31, 2022, 2021, and 2020. 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 report may contain certain forward-looking statements, such as discussions of the Company's pricing and fee trends, credit quality and outlook, liquidity, new business results, expansion plans, anticipated expenses, and planned schedules. The Company 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 1955. Forward-looking statements, which are based on certain assumptions and describe future plans, strategies, and expectations of the Company, 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 those described in Item 1A. "Risk Factors" and other sections of the Company's Annual Report on Form 10-K and the Company's other filings with the SEC, and changes in interest rates, general economic conditions and those in the Company's market area, legislative/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 the loan or investment portfolios and the valuation of the investment portfolio, the Company's success in raising capital, demand for loan products, deposit flows, competition, demand for financial services in the Company's market area and accounting principles, policies and guidelines. Furthermore, 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.

For the Years Ended December 31, 2022, 2021, and 2020 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, you should carefully read this entire document. These have an impact on the Company's consolidated financial condition and results of consolidated operations.

Net income was $73.0 million, $51.5 million, and $45.3 million and diluted earnings per share were $3.60, $2.87, and $2.70 for the years ended December 31, 2022, 2021, and 2020, respectively. The following table shows the Company's annualized performance ratios for the years ended December 31, 2022, 2021, and 2020:

	2022	2021	2020
Return on average assets	1.11%	0.90%	1.05%
Return on average common equity	11.38%	8.38%	8.24%
Average common equity to average assets	9.77%	10.72%	12.76%

Total assets at December 31, 2022, 2021, and 2020 were $6.74 billion, $5.99 billion, and $4.73 billion, respectively. Net loan balances increased to $4.77 billion at December 31, 2022, from $3.94 billion at December 31, 2021, and from $3.10 billion at December 31, 2020. The increase in 2022 was primarily due to approximately $418.5 million of loans acquired from Jefferson Bank. The increase in 2021 was primarily due to approximately $829 million of loans acquired from Providence Bank and $208 million of loans purchased from Stifel Bank. Of the increase in 2020, approximately $183 million was loans purchased from Stifel Bank and $168 million was PPP loans.

Total deposit balances increased to $5.26 billion at December 31, 2022 from $4.96 billion at December 31, 2021 and from $3.69 billion at December 31, 2020. The increase in 2022 was primarily due to $560 million of deposits acquired from Jefferson Bank. The increase in 2021 was primarily due to $990 million of deposits acquired from Providence Bank and $219 million of deposits acquired in association with loans purchased from Stifel Bank. The increase in 2020 was primarily due to approximately $62 million of deposits acquired from Stifel Bank for customer accounts in connection with loans acquired, increases in customers deposits for stimulus payments and PPP loan proceeds.

Net interest margin (tax effected), defined as net interest income divided by average interest-earning assets, was 3.13% for 2022, 3.21% for 2021 and 3.27% for 2020. In 2022 the decrease was primarily due to an increase in rates on interest-bearing deposits and borrowings. In 2021 the decrease was primarily due to less accretion income and a decline in interest rates.

Net interest income increased to $184.3 million in 2022 from $167.8 million in 2021 and $127.4 million in 2020. During 2022, the increase in net interest income was primarily due to the acquisition of Jefferson Bank. During 2021, the increase in net interest income resulted from growth in earning assets, primarily through acquisitions offset by growth in interest bearing liabilities with lower interest rates. During 2020, the increase in net interest income was primarily due to growth in earning assets offset by a decline in interest rates.

Non-interest income increased to $74.7 million in 2022 compared to $69.8 million in 2021 and $59.5 million in 2020. The increase in 2022 was primarily due to growth in wealth management and insurnace revenues and the acquisition of Jefferson Bank. The increase in 2021 was primarily due to the acquisition of Providence Bank. The increase in 2020 was primarily due to increases in wealth management revenues, insurance commissions and mortgage banking income.

Non-interest expenses increased to $162.9 million in 2022 compared to $155.6 million in 2021, and $111.1 million in 2020. The increase in 2022 was primarily due to the acquisition of Jefferson Bank. The increase in 2021 was primarily due to the acquisition of Providence Bank.

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

	2022 vs 2021	2021 vs 2020
Net interest income	$ 16,526	$ 40,339
Provision for loan losses	10,345	952
Other income, including securities transactions	4,915	10,247
Other expenses	(7,282)	(44,492)
Income taxes	(3,042)	(826)
Increase in net income	$ 21,462	$ 6,220

Credit quality is an area of importance to the Company. Year-end total nonperforming loans were $19.2 million at December 31, 2022 compared to $22.0 million at December 31, 2021, and $28.1 million at December 31, 2020. Repossessed Assets balances totaled $4.4 million at December 31, 2022 compared to $5.0 million at December 31, 2021, and $2.5 million at December 31, 2020. The Company's provision for loan losses was $4.8 million for 2022, compared to $15.2 million for 2021, and $16.1 million for 2020. The decrease of provision expense in 2022 and 2021 is primarily due to a decrease in classified loans and improved economic outlook. The increase in provision in 2020 was due to the adoption of ASU 2016-13 and impacts of COVID-19 on the operations and earnings of borrowers.

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 ratio to risk weighted assets ratio at December 31, 2022, 2021, and 2020 was 12.40%, 12.51%, and 14.63%, respectively. The Company's total capital to risk weighted assets ratio at December 31, 2022, 2021, and 2020 was 15.20%, 15.79% and 18.82%, respectively. The decrease in 2022 was primarily due to the increase in assets following the acquisition of Jefferson Bank. The decrease in these ratios during 2021 was primarily due to the increase in assets following the acquisition of Providence Bank.

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 "Liquidity" herein for a full listing of its 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 December 31, 2022, 2021, and 2020 were $1.2 billion, $1.0 billion, and $615.5 million, respectively. See Note 17 – "Commitments and Contingent Liabilities" herein for further information.

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 financial statements. The significant accounting policies of the Company are described in the footnotes to the consolidated financial statements. 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 securities as either held-to-maturity or available-for-sale. Securities classified as held-to-maturity are recorded at amortized cost. Available-for-sale and equity 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.

Allowance for Credit Losses - Held-to-Maturity Securities. Currently all the Company's held-to-maturity securities are government agency-backed securities for which the risk of loss is minimal. Accordingly, the Company does not record an allowance for credit losses on held-to-maturity securities.

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.

The allowance for credit losses is measured on a collective (pool) basis for non-impaired loans with similar risk characteristics. Historical credit loss experience provides the basis for the estimate of expected credit losses. Adjustments to historical loss information are made for relevant factors to each pool including merger & acquisition activity, economic conditions, changes in policies, procedures & underwriting, and concentrations. The Company estimates the appropriate level of allowance for credit losses for impaired 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 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 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 measure 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 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 into 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. 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 during 2019 as part of the goodwill impairment test and no impairment was deemed necessary.

As a result of the Company's acquisition activity, goodwill, an intangible asset with an indefinite life, is reflected on the 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.

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 11 – "Disclosures of Fair Values of Financial Instruments."

Results of Operations

Net Interest Income

The largest source of operating 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% was used for all years. 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 $3,164,000, $2,624,000, and $2,223,000 for 2022, 2021, and 2020, respectively, were 3.08%, 3.17%, and 3.20% at December 31, 2022, 2021, and 2020, 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 in the following table (dollars in thousands):

	Year Ended December 31, 2022			Year Ended December 31, 2021			Year Ended December 31, 2020		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Assets									
Interest-bearing deposits	$ 56,517	$ 492	0.87%	$ 268,523	$ 357	0.13%	$ 140,470	$ 274	0.19%
Federal funds sold	5,772	113	1.96%	1,335	—	0.03%	1,149	3	0.24%
Certificates of deposit investments	1,756	37	2.10%	2,606	56	2.13%	3,771	84	2.23%
Investment securities									
Taxable	1,053,511	20,595	1.95%	923,600	15,598	1.69%	545,525	11,376	2.09%
Tax-exempt (Municipals)(TE)(1)	328,832	11,121	3.38%	299,833	9,264	3.09%	200,128	7,075	3.54%
Loans (TE)(1)(2)(3)	4,518,566	186,697	4.13%	3,778,174	160,362	4.24%	3,046,814	127,552	4.19%
Total earning assets	5,964,954	219,055	3.67%	5,274,071	185,637	3.51%	3,937,857	146,364	3.72%
Cash and due from banks	123,306			95,902			87,194		
Premises and equipment	88,744			79,913			59,068		
Other assets	439,545			333,115			255,184		
Allowance for credit losses	(58,876)			(53,188)			(37,343)		
Total assets	$ 6,557,673			$ 5,729,813			$ 4,301,960		
Liabilities and stockholders' equity									
Deposits:									
Demand deposits, interest-bearing	$ 2,598,480	13,709	0.53%	$ 2,217,281	4,258	0.19%	$ 1,557,264	3,732	0.24%
Savings deposits	666,334	570	0.09%	611,379	487	0.08%	469,276	426	0.09%
Time deposits	655,240	4,534	0.69%	671,056	4,292	0.64%	531,834	8,593	1.62%
Total interest-bearing deposits	3,920,054	18,813	0.48%	3,499,716	9,037	0.26%	2,558,374	12,751	0.50%
Securities sold under agreements to repurchase	202,242	1,795	0.89%	173,762	231	0.13%	219,298	488	0.22%
FHLB advances	276,401	6,184	2.24%	107,518	1,514	1.41%	106,688	1,851	1.73%
Federal funds purchased	481	9	1.87%	—	—	—%	525	10	1.90%
Subordinated debt	94,471	3,945	4.18%	94,321	3,939	4.18%	22,403	931	4.16%
Junior subordinated debentures	19,275	868	4.50%	19,105	541	2.83%	18,936	682	3.60%
Other debt	14	—	—%	—	—	—%	656	16	2%
Total borrowings	592,884	12,801	2.16%	394,706	6,225	1.58%	368,506	3,978	1.08%
Total interest-bearing liabilities	4,512,938	31,614	0.70%	3,894,422	15,262	0.39%	2,926,880	16,729	0.57%
Demand deposits	1,356,912			1,164,877			777,435		
Other liabilities	46,811			56,388			48,518		
Stockholders' equity	641,012			614,126			549,127		
Total liabilities and stockholders' equity	$ 6,557,673			$ 5,729,813			$ 4,301,960		
Net interest income		$ 187,441			$ 170,375			$ 129,635	
Net interest spread			2.97%			3.12%			3.15%
Impact of non-interest-bearing funds			0.16%			0.09%			0.12%
TE net yield on interest-earning assets			3.13%			3.21%			3.27%

(1) Tax-exempt income is shown on a fully tax equivalent basis.
(2) Nonaccrual loans have been included in the average balances. Balances are net of unaccreted discount related to loans acquired.
(3) Includes loans held for sale

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 past two years (in thousands):

	2022 Compared to 2021 Increase (Decrease)			2021 Compared to 2020 Increase (Decrease)		
	Total Change	Volume (1)	Rate (1)	Total Change	Volume (1)	Rate (1)
Earning assets:						
Interest-bearing deposits	$ 135	$ (468)	$ 603	$ 83	$ 187	$ (104)
Federal funds sold	113	4	109	(3)	—	(3)
Certificates of deposit investments	(19)	(18)	(1)	(28)	(24)	(4)
Investment securities:						
Taxable	4,997	2,387	2,610	4,222	6,728	(2,506)
Tax-exempt	1,857	939	918	2,189	3,171	(982)
Loans (2)	26,335	30,596	(4,261)	32,810	31,257	1,553
Total interest income	33,418	33,440	(22)	39,273	41,319	(2,046)
Interest-bearing liabilities:						
Deposits:						
Demand deposits, interest-bearing	9,451	828	8,623	526	1,397	(871)
Savings deposits	83	35	48	61	113	(52)
Time deposits	242	(99)	341	(4,301)	1,849	(6,150)
Total interest-bearing deposits	9,776	764	9,012	(3,714)	3,359	(7,073)
Securities sold under agreements to repurchase	1,564	43	1,521	(257)	(87)	(170)
FHLB advances	4,670	3,397	1,273	(337)	14	(351)
Federal funds purchased	9	6	3	(10)	(5)	(5)
Subordinated debt	6	6	—	3,008	3,004	4
Junior subordinated debentures	327	5	322	(141)	6	(147)
Other debt	—	—	—	(16)	(8)	(8)
Total borrowings	6,576	3,457	3,119	2,247	2,924	(677)
Total interest expense	16,352	4,221	12,131	(1,467)	6,283	(7,750)
Net interest income	$ 17,066	$ 29,219	$ (12,153)	$ 40,740	$ 35,036	$ 5,704

(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) Nonaccrual loans have been included in the average balances. Balances are net of unaccreted discount related to loans acquired.

Net interest income on a tax-effected basis increased $17.1 million or 10.0% in 2022 compared to an increase of $40.7 million or 31.4% in 2021. Net interest income on a tax-effected basis increased primarily due to the growth in average earnings assets including loans and interest-bearing deposits. The tax-effected net interest margin decreased primarily due to higher interest-bearing liability costs.

In 2022, average earning assets increased by $690.9 million, or 13.1%, and average interest-bearing liabilities increased by $618.5 million or 15.9%. These increases were primarily due to assets and liabilities acquired from Jefferson Bank. Changes in average balances are shown below:

- Average interest-bearing cash deposits held by the Company decreased $212.0 million or 79.0% in 2022 compared to 2021. In 2021, average interest-bearing cash deposits held by the Company increased $128.1 million or 91.2% compared to 2020.

- Average federal funds sold increased $4.4 million or 332.4% in 2022 compared to 2021. In 2021, average federal funds sold increased $0.2 million or 16.2% compared to 2020.

- Average certificates of deposit investments decreased $0.9 million or 32.6% in 2022 compared to 2021. In 2021, average certificates of deposit investments decreased $1.2 million or 30.9% compared to 2020.

- Average loans increased by $740.4 million or 19.6% in 2022 compared to 2021. In 2021, average loans increased by $731.4 million or 24.0% compared to 2020.

- Average securities increased by $158.9 million or 13.0% in 2022 compared to 2021. In 2021, average securities increased by $477.8 million or 64.1% compared to 2020.

- Average interest-bearing deposits increased by $420.3 million or 12.0% in 2022 compared to 2021. In 2021, average deposits increased by $941.3 million or 36.8% compared to 2020.

- Average securities sold under agreements to repurchase increased by $28.5 million or 16.40% in 2022 compared to 2021. In 2021, average securities sold under agreements to repurchase decreased by $45.5 million or 20.8% compared to 2020.

- Average borrowings and other debt increased by $169.7 million or 76.8% in 2022 compared to 2021. In 2021, average borrowings and other debt increased by $71.7 million or 48.1% compared to 2020.

- Net interest margin decreased to 3.13% compared to 3.21% in 2021 and 3.27% in 2020. Asset yields increased by 16 basis points in 2022, and interest-bearing liabilities increased by 31 basis points.

Provision for Loan Losses

The provision for loan losses in 2022 was $4.8 million compared to $15.2 million in 2021 and $16.1 million in 2020. Nonperforming loans decreased to $19.2 million at December 31, 2022 from $22.0 million at December 31, 2021 and $28.1 million at December 31, 2020. The decrease in provision expense in 2022 and 2021 was primarily due to a decrease in classified loans and improved economic outlook. Net charge-offs were $1.2 million during 2022, $4.5 million during 2021 and $2.8 million during 2020. For information on loan loss experience and nonperforming loans, see “Nonperforming Loans and Repossessed Assets” and “Loan Quality and Allowance for credit losses” herein.

Other Income

An important source of the Company’s revenue is derived from other income. The following table sets forth the major components of other income for the last three years (in thousands):

				Change From Prior Year			
				2022		2021	
	2022	2021	2020	$	%	$	%
Wealth management revenues	$ 22,492	$ 20,407	$ 16,153	$ 2,085	10.2%	$ 4,254	26.3%
Insurance commissions	21,622	18,927	17,477	2,695	14.2%	1,450	8.3%
Service charges	9,112	6,808	5,862	2,304	33.8%	946	16.1%
Securities gains	33	124	1,106	(91)	-73.4%	(982)	-88.8%
Mortgage banking	1,190	4,718	5,075	(3,528)	-74.8%	(357)	-7.0%
ATM / debit card revenue	12,422	11,974	8,962	448	3.7%	3,012	33.6%
Bank owned life insurance	3,559	3,039	1,730	520	17.1%	1,309	75.7%
Other	4,252	3,770	3,155	482	12.8%	615	19.5%
Total other income	$ 74,682	$ 69,767	$ 59,520	$ 4,915	7.0%	$ 10,247	17.2%

Total non-interest income increased to $74.7 million in 2022 compared to $69.8 million in 2021 and $59.5 million in 2020. The primary reasons for the more significant year-to-year changes in other income components are as follows:

- Wealth management revenues increased in 2022 due to growth in customer accounts and assets under management as well as rising commodity prices, which drove higher farm management fee income. The increase in 2021 was primarily due to increases in all business lines. Total assets under management were $5.3 billion at December 31, 2022 compared to $5.1 billion at December 31, 2021 and $4.5 billion at December 31, 2020.

- Insurance commissions increased in 2022 primarily due to an increase in commission and contingency income. During 2021 the increase was primarily due to increases in commission and fee income offset by a decline in contingency income.

- Fees from service charges increased in 2022 was primarily due to an increase in overdraft fees and transaction account service charges and the acquisition of Jefferson Bank. The increase in 2021 was primarily due to the acquisition of Providence Bank.

- Net securities gains in 2022 were $33,000 compared to $124,000 in 2021 and $1,106,000 in 2020. Net securities gains were less in 2022 and 2021 due to less securities being sold during the year.

- The decrease in mortgage banking income during 2022 was due to a decline in mortgage refinancing activity and fees from loans sold in the secondary market. Loans sold balances were as follows:

    - $62.3 million (representing 422 loans) in 2022
    - $149.0 million (representing 1,011 loans) in 2021
    - $196.0 million (representing 1,315 loans) in 2020

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

- Revenue from ATMs and debit cards increased in 2022 primarily due to the acquisition of Jefferson Bank and in 2021 primarily due to the acquisition of Providence Bank.

- Bank owned life insurance increased during 2022 due to $15.8 million of bank owned life insurance added through the acquisition of Jefferson Bank. The increase in 2021 was due to $30 million of bank owned life insurance added by First Mid Bank and $30.3 million of bank owned life insurance acquired in the acquisition of Providence Bank.

- Other income increased during 2022 primarily due to the acquisition of Jefferson Bank and a gain realized on the termination of derivatives. Other income increased during 2021 primarily due to the acquisition of Providence Bank offset by a swap upfront fee received in 2020 that did not recur in 2021.

Other Expense

The major categories of other expense include salaries and employee benefits, occupancy and equipment expenses and other operating expenses associated with day-to-day operations. The following table sets forth the major components of other expense for the last three years (dollars in thousands):

				Change From Prior Year			
				2022		2020	
	2022	2021	2020	$	%	$	%
Salaries and benefits	$ 98,594	$ 89,660	$ 66,452	$ 8,934	10.0%	$ 23,208	34.9%
Occupancy and equipment	24,257	21,546	16,708	2,711	12.6%	4,838	29.0%
Other real estate owned, net	330	3,866	42	(3,536)	-91.5%	3,824	9104.8%
FDIC insurance assessment expense	1,805	1,604	1,309	201	12.5%	295	22.5%
Amortization of other intangibles	6,290	5,391	5,062	899	16.7%	329	6.5%
Stationery and supplies	1,295	1,161	1,080	134	11.5%	81	7.5%
Legal and professional	6,996	6,730	5,427	266	4.0%	1,303	24.0%
Marketing and promotion	2,999	3,603	1,616	(604)	-16.8%	1,987	123.0%
ATM / debit card expense	4,300	3,116	2,290	1,184	38.0%	826	36.1%
Other operating expenses	15,995	18,902	11,101	(2,907)	-15.4%	7,801	70.3%
Total other expense	$ 162,861	$ 155,579	$ 111,087	$ 7,282	4.7%	$ 44,492	40.1%

Total non-interest expense increased to $162.9 million in 2022 from $155.6 million in 2021 and $111.1 million in 2020. The primary reasons for the more significant year-to-year changes in other expense components are as follows:

- Salaries and employee benefits, the largest component of other expense, increased primarily due to an increase in incentive compensation and commission, share-based compensation expense, increases for merit raises and applicable payroll taxes, and the addition of Jefferson Bank, offset by declines in bonus accrual expense and group insurance expense. The increase in 2021 was due to additional employees from the acquisition of Providence Bank, merit increases in 2021 for continuing employees and an increase in incentive compensation, commissions, and share-based compensation. There were 1,043 full-time equivalent employees at December 31, 2022, compared to 965 at December 31, 2021, and 824 at December 31, 2020.

- Occupancy and equipment expense increased primarily due to increases in depreciation, equipment and other property related expenses from the acquisition of Jefferson Bank, offset by decreases in data processing expense. The increase in 2021 was primarily due to additional properties added in the acquisition of Providence Bank and increases in expense for software and data processing.

- Net other real estate owned expense decreased in 2022 primarily due to more properties sold at a net gain compared to properties sold at a net loss or written down during 2021. The increase in 2021 was primarily due to properties added in the acquisition of Providence Bank that were sold at prices lower than recorded book value and properties from branch operations that were closed during 2021 and moved to ORE and subsequently written down.

- FDIC insurance expense increased due to the additional assets added with the acquisition of Jefferson Bank. The increase in 2021 was due to the additional assets added with the acquisition of Providence Bank offset by lower assessment rates.

- Amortization of other intangibles increased during 2022 primarily due to additional core deposit intangibles added from the acquisition of Jefferson Bank. The increase in 2021 was primarily due to additional core deposit intangibles added from the acquisition of Providence Bank and deposits added associated with the Stifel loan purchase.

- ATM and debit card expenses increased primarily due to an increase in electronic transactions following the acquisition of Jefferson Bank. The increase during 2022 was primarily due to an increase in electronic transactions following the acquisition of Providence Bank.

- Other operating expenses decreased during 2022 due to less costs to acquire Delta compared to costs to acquire LINCO offset by additional expenses from the operation of Jefferson Bank. Other operation expenses increased during 2021 primarily due to the acquisition of Providence Bank.

- On a net basis, all other categories of operating expenses increased during 2022 primarily due to increased costs associated with the operation of Jefferson Bank. The increase during 2021 was primarily due to an increase in fees associated with the acquisition of Providence Bank.

Income Taxes

Income tax expense amounted to $18.3 million in 2022 compared to $15.3 million in 2021, and $14.5 million in 2020. Effective tax rates were 20.1% for 2022, 22.9% for 2021, and 24.2% for 2020. The Company files U.S. federal and state of Illinois, Indiana, and Missouri income tax returns. The Company is no longer subject to U.S. federal or state income tax examinations by tax authorities for years before 2019.

Analysis of 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 for the last three years (dollars in thousands):

	December 31,					
	2022		2021		2020	
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 252,934	1.28%	$ 213,599	1.22%	$ 132,083	1.25%
Obligations of states and political subdivisions	347,409	2.31%	383,991	2.40%	237,886	2.72%
Mortgage-backed securities: GSE residential	744,636	1.69%	799,456	1.58%	479,470	1.92%
Other securities	90,347	3.41%	32,575	4.30%	10,740	5.22%
Total securities	$ 1,435,326	1.87%	$ 1,429,621	1.80%	$ 860,179	2.08%

At December 31, 2022, the amortized cost of the Company's investment portfolio increased by $5.7 million from December 31, 2021 primarily due to securities obtained in the acquisition of Jefferson Bank. 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 December 31, 2022 for certain investment securities (in thousands):

			Average Credit Rating of Fair Value at December 31, 2022 (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	$ 252,934	$ 220,527	$ 25,510	$ 194,274	$ —	$ —	$ —	$ 744
Obligations of state and political subdivisions	347,409	287,698	36,436	206,106	44,757	—	—	400
Mortgage-backed securities (2)	744,636	627,880	988	—	—	—	—	626,892
Other securities	87,393	82,880	3,000	10,071	28,595	4,600	—	36,613
Total available-for-sale	$ 1,432,372	$ 1,218,985	$ 65,934	$ 410,451	$ 73,352	$ 4,600	$ —	$ 664,649
Held-to-maturity:								
Other securities	$ 2,954	$ 2,954	$ —	$ —	$ —	$ —	$ —	$ 2,954
Equity securities:								
Federal Agricultural Mtg Corp	$ 84	$ 311	$ —	$ —	$ —	$ —	$ —	$ 311

(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 (net of unearned interest) is the largest category of the Company's earning assets. The following table summarizes the composition of the loan portfolio, including loans held for sale, for the last five years (dollars in thousands):

	2022	% Outstanding Loans	2021	2020	2019	2018
Construction and land development	$ 144,264	3.0%	$ 145,118	$ 122,479	$ 94,142	$ 50,619
Agricultural real estate	410,327	8.5%	279,272	254,341	240,241	231,700
1-4 family residential properties	440,180	9.1%	400,313	325,762	336,427	373,518
Multifamily residential properties	294,346	6.1%	298,942	189,632	153,948	184,051
Commercial real estate	2,030,011	42.1%	1,666,198	1,174,300	995,702	906,850
Loans secured by real estate	3,319,128	68.8%	2,789,843	2,066,514	1,820,460	1,746,738
Agricultural loans	166,838	3.5%	151,484	137,352	136,124	135,877
Commercial and industrial loans	1,082,960	22.4%	832,008	738,313	528,973	557,011
Consumer loans	97,775	2.0%	78,442	78,002	83,183	91,516
All other loans	159,511	3.3%	143,746	118,238	126,607	113,377
Total loans	$ 4,826,212	100.0%	$ 3,995,523	$ 3,138,419	$ 2,695,347	$ 2,644,519

Loan balances increased by $830.7 million or 20.8% from December 31, 2021 to December 31, 2022 which included approximately $418.5 million of loans acquired, before purchase accounting adjustments, from Jefferson Bank. Loan balances increased by $857.1 million or 27.3% from December 31, 2020 to December 31, 2021 of which approximately $829 million were loans acquired from Providence Bank and $208 million were loans purchases from Stifel Bank. The balances of loans sold into the secondary market were $62.3 million in 2022 compared to $149.0 million in 2021. The balance of real estate loans held for sale, included in the balances shown above, amounted to $338,000 and $2,748,000 as of December 31, 2022 and 2021, 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.

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 total risk-based capital for the periods shown above. At December 31, 2022 and 2021, First Mid Bank did have industry loan concentrations in excess of 25% of total risk-based capital in the following industries (dollars in thousands):

	December 31, 2022		December 31, 2021	
	Principal balance	% Outstanding Loans	Principal balance	% Outstanding Loans
Other grain farming	$ 445,241	9.23%	$ 297,394	7.44%
Lessors of non-residential buildings	956,120	19.81%	696,730	17.44%
Lessors of residential buildings and dwellings	453,219	9.39%	468,362	11.72%
Hotels and motels	209,837	4.35%	159,410	3.99%

The Company had no further industry loan concentrations in excess of 25% of total risk-based capital.

The following table presents the balance of loans outstanding as of December 31, 2022, 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	$ 37,079	$ 58,531	$ 48,654	$ 144,264
Agricultural real estate	12,103	130,561	267,663	410,327
1-4 family residential properties	14,229	123,451	302,500	440,180
Multifamily residential properties	16,705	218,583	59,058	294,346
Commercial real estate	118,619	1,016,935	894,457	2,030,011
Loans secured by real estate	198,735	1,548,061	1,572,332	3,319,128
Agricultural loans	128,848	33,365	4,625	166,838
Commercial and industrial loans	245,615	548,070	289,275	1,082,960
Consumer loans	7,909	62,287	27,579	97,775
All other loans	30,234	24,439	104,838	159,511
Total loans	$ 611,341	$ 2,216,222	$ 1,998,649	$ 4,826,212

(1) Based upon remaining contractual maturity.
(2) Includes demand loans, past due loans and overdrafts.

As of December 31, 2022, loans with maturities over one year consisted of approximately $2.9 billion in fixed rate loans and approximately $1.3 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 "troubled debt restructurings". 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.

Troubled debt restructurings 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 credit 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 (in thousands):

	December 31,				
	2022	2021	2020	2019	2018
Nonaccrual loans	$ 15,956	$ 18,105	$ 23,750	$ 25,118	$ 27,298
Troubled debt restructurings which are performing in accordance with revised terms	3,214	3,931	4,373	2,700	2,451
Total nonperforming loans	19,170	22,036	28,123	27,818	29,749
Repossessed assets	4,369	5,019	2,493	3,720	2,595
Total nonperforming loans and repossessed assets	$ 23,539	$ 27,055	$ 30,616	$ 31,538	$ 32,344
Nonperforming loans to loans, before allowance for credit losses	0.40%	0.55%	0.90%	1.03%	1.12%
Nonperforming loans and repossessed assets to loans, before allowance for credit losses	0.49%	0.68%	0.98%	1.17%	1.22%

The $2.1 million decrease in nonaccrual loans during 2022 resulted from the net of $5.4 million of loans put on nonaccrual status, offset by $0.4 million of loans transferred to other real estate owned, $0.3 million of loans charged off and $6.8 million of loans becoming current or paid-off.

The following table summarizes the composition of nonaccrual loans (dollars in thousands):

	December 31, 2022		December 31, 2021	
	Balance	% of Total	Balance	% of Total
Construction and land development	$ 14	0.1%	$ 25	0.1%
Agricultural real estate	1,258	7.9%	336	1.9%
1-4 family residential properties	4,943	31.0%	5,252	29.0%
Multifamily residential properties	672	4.2%	1,982	11.0%
Commercial real estate	7,640	47.8%	7,920	43.7%
Loans secured by real estate	14,527	91.0%	15,515	85.7%
Agricultural loans	57	0.4%	560	3.1%
Commercial and industrial loans	1,098	6.9%	1,851	10.2%
Consumer loans	274	1.7%	179	1.0%
Total loans	$ 15,956	100.0%	$ 18,105	100.0%

Interest income that would have been reported if nonaccrual and restructured loans had been performing totaled $103,000, $308,000 and $575,000 for the years ended December 31, 2022, 2021, and 2020, respectively.

The $0.7 million decrease in repossessed assets during 2022 resulted from the net of $.5 million of additional assets repossessed, $1 million of repossessed assets sold and a $0.2 million of writedowns on existing assets. The following table summarizes the composition of repossessed assets (dollars in thousands):

	December 31, 2022		December 31, 2021	
	Balance	% of Total	Balance	% of Total
Construction and land development	$ 2,763	63.2%	$ 3,004	59.9%
1-4 family residential properties	108	2.5%	12	0.2%
Commercial real estate	1,390	31.8%	1,968	39.2%
Total real estate	4,261	97.5%	4,984	99.3%
Consumer loans	108	2.5%	35	0.7%
Total repossessed collateral	$ 4,369	100.0%	$ 5,019	100.0%

Repossessed assets sold during 2022 resulted in net gains of $36,000 related to real estate asset sales and $2,000 of net losses related to other assets sales. The Company also recognized $61,000 of deferred gains and recorded $236,000 of write downs on three 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 credit losses is the charge against current earnings that is determined by management 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, 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. Once identified, the magnitude of exposure to individual borrowers is quantified in the form of specific allocations of the allowance for credit losses. Management considers collateral values and guarantees in the determination of such specific allocations. Additional factors considered by management in evaluating the overall adequacy of the allowance include historical net loan losses, 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 consumers' ability to pay. Each of these economic uncertainties was taken into consideration in developing the level of the reserve. Management considers the allowance for credit 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 December 31, 2022, the Company's loan portfolio included $577.2 million of loans to borrowers whose businesses are directly related to agriculture. Of this amount, $445.2 million was concentrated in other grain farming. Total loans to borrowers whose businesses are directly related to agriculture increased $146.4 million from $430.8 million at December 31, 2021 while loans concentrated in other grain farming increased $147.8 million from $297.4 million at December 31, 2021. 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 $209.8 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 $956.1 million of loans to lessors of non-residential buildings and $453.2 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. On a quarterly basis, the Board of Directors and management review the status of problem loans and determine a best estimate of the allowance. In addition to internal policies and controls, regulatory authorities periodically review asset quality and the overall adequacy of the allowance for credit losses.

Analysis of the allowance for credit losses for the past five years and of changes in the allowance for these periods is summarized as follows (dollars in thousands):

	2022	2021	2020	2019	2018
Average loans outstanding, net of unearned income	$ 4,518,566	$ 3,778,142	$ 3,003,488	$ 2,598,718	$ 2,276,500
Adjustment for adoption of ASU 2016-13	—	—	1,672	—	—
Allowance-beginning of period	54,655	41,910	28,583	26,189	19,977
Initial allowance on loans purchased with credit deterioration	863	2,074	—	—	—
Charge-offs:					
Construction and land development	2	205	13	—	10
Agricultural real estate	—	—	—	—	—
1-4 family residential properties	191	371	393	1,477	1,111
Commercial real estate	414	535	830	1,743	170
Agricultural loans	93	—	—	24	93
Commercial and industrial loans	870	3,118	1,991	1,828	832
Consumer loans	1,380	1,405	617	1,254	777
Total charge-offs	2,950	5,634	3,844	6,326	2,993
Recoveries:					
Construction and land development	100	—	—	—	—
Agricultural real estate	—	—	—	—	—
1-4 family residential properties	359	211	299	91	102
Commercial real estate	385	60	169	12	—
Agricultural loans	54	1	—	—	—
Commercial and industrial loans	208	139	179	155	145
Consumer loans	613	743	421	357	291
Total recoveries	1,719	1,154	1,068	615	538
Net charge-offs	1,231	4,480	2,776	5,711	2,455
Provision for loan losses	4,806	15,151	16,103	6,433	8,667
Allowance-end of period	$ 59,093	$ 54,655	$ 41,910	$ 26,911	$ 26,189
Ratio of annualized net charge-offs to average loans	0.03%	0.12%	0.09%	0.22%	0.11%
Ratio of allowance for credit losses to loans outstanding (less unearned interest at end of period)	1.22%	1.37%	1.34%	1.00%	0.99%
Ratio of allowance for credit losses to nonperforming loans	308.3%	248.0%	149.0%	96.7%	88.0%

The ratio of the allowance for credit losses to nonperforming loans was 308.3% as of December 31, 2022 compared to 248.0% as of December 31, 2021. The increase in this ratio is primarily due to a decline in nonperforming loans. Management believes that the overall estimate of the allowance for credit losses appropriately accounts for probable losses attributable to current exposures.

During 2022, the Company had net charge-offs of $1,231,000 compared to $4,480,000 in 2021. During 2022, there were significant charge-offs of two commercial real estate loans to one borrower of $271,000 and significant charge-offs of two commercial operating loans to two borrowers of $739,000. During 2021, there were significant charge-offs of two commercial real estate loans to two borrowers of $661,000 and significant charge-offs of five commercial operating loans to three borrowers of $2.9 million.

At December 31, 2022, the allowance for credit losses amounted to $59.1 million or 1.22% of total loans. At December 31, 2021, the allowance for credit losses amounted to $54.7 million or 1.37% of total loans. The allowance is allocated to the individual loan categories by a specific allocation for all classified loans plus a percentage of loans not classified based on historical losses and other factors.

The allowance for credit losses, in management's judgment, was allocated as follows to cover probable loan losses (dollars in thousands):

	December 31, 2022		December 31, 2021		December 31, 2020	
	Allowance for credit losses	% of loans to total loans	Allowance for credit losses	% of loans to total loans	Allowance for credit losses	% of loans to total loans
Construction and land development	$ 2,250	3.0%	$ 1,743	3.6%	$ 1,666	3.9%
Agriculture real estate	1,433	8.5%	1,257	7.0%	1,084	8.1%
1-4 family residential	3,742	9.1%	2,330	10.0%	2,322	10.4%
Commercial real estate	28,157	48.2%	26,246	49.2%	19,660	43.4%
Agricultural loans	585	3.5%	983	3.8%	1,526	4.4%
Commercial and industrial	20,808	25.7%	19,241	24.4%	13,485	27.3%
Consumer	2,118	2.0%	2,855	2.0%	2,167	2.5%
Total allocated	59,093	100.0%	54,655	100.0%	41,910	100.0%
Unallocated	—	NA	—	NA	—	NA
Allowance at end of year	$ 59,093	100.0%	$ 54,655	100.0%	$ 41,910	100.0%

	December 31, 2019		December 31, 2018	
	Allowance for credit losses	% of loans to total loans	Allowance for credit losses	% of loans to total loans
Construction and land development	$ 1,146	3.5%	$ 561	1.9%
Agriculture real estate	1,093	8.9%	1,246	8.8%
1-4 family residential	1,386	12.5%	1,504	14.1%
Commercial real estate	11,198	42.6%	11,102	41.3%
Agricultural loans	1,386	5.1%	951	5.1%
Commercial and industrial	9,273	24.3%	9,893	25.3%
Consumer	1,429	3.1%	932	3.5%
Total allocated	26,911	100.0%	26,189	100.0%
Unallocated	—	NA	—	NA
Allowance at end of year	$ 26,911	100.0%	$ 26,189	100.0%

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 years ended December 31, 2022, 2021, and 2020 (dollars in thousands):

	2022		2021		2020	
	Average Balance	Weighted Average Rate	Average Balance	Weighted Average Rate	Average Balance	Weighted Average Rate
Demand deposits:						
Non-interest-bearing	$ 1,356,912	—%	$ 1,164,877	—%	$ 777,435	—%
Interest-bearing	2,598,480	0.53%	2,217,281	0.19%	1,557,264	0.24%
Savings	666,334	0.09%	611,379	0.08%	469,276	0.09%
Time deposits	655,240	0.69%	671,056	0.64%	531,834	1.61%
Total average deposits	$ 5,276,966	0.36%	$ 4,664,593	0.19%	$ 3,335,809	0.38%

The following table sets forth the high and low month-end balances for the years ended December 31, 2022, 2021, and 2020 (in thousands):

	2022	2021	2020
High month-end balances of total deposits	$ 5,487,305	$ 5,000,084	$ 3,692,784
Low month-end balances of total deposits	4,904,973	3,725,741	2,873,260

In 2022, the average balance of deposits increased by $612.4 million from 2021. The increase in 2022 was primarily due to deposits added in the acquisition of Jefferson Bank offset by maturing time deposits. Also from 2021 and 2022, average non-interest bearing deposits increased by $192.0 million, interest-bearing deposits increased by $381.2 million, savings accounts increased by $55.0 million, and time deposits decreased by $15.8 million. In 2021, the average balance of deposits increased by $1,328.8 million from 2020. The increase in 2021 was primarily due to approximately $990 million of deposits acquired from Providence Bank and $219 million of deposits acquired in association with loans purchased from Stifel Bank. Also from 2020 to 2021, average non-interest bearing deposits increased by $387.4 million, interest-bearing deposits increased by $660.0 million, savings accounts increased by $142.1 million, and time deposits increased by $139.2 million.

Balances of 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 of $100,000 or more (in thousands):

	December 31,		
	2022	2021	2020
3 months or less	$ 80,856	$ 86,790	$ 72,945
Over 3 through 6 months	31,771	57,777	49,710
Over 6 through 12 months	127,405	82,644	88,682
Over 12 months	183,597	75,568	72,070
Total	$ 423,629	$ 302,779	$ 283,407

The balance of time deposits of $100,000 or more increased $120.9 million from December 31, 2021 to December 31, 2022. The increase was primarily due to time deposits acquired from Jefferson Bank. The balance of time deposits of $100,000 or more increased $19.4 million from December 31, 2020 to December 31, 2021. The increase in 2021 was primarily due to time deposits acquired from Providence Bank.

In 2022 the Company maintained account relationships with various public entities throughout its market areas. These public entities had total balances of $319.4 million and $291.4 million in various checking accounts and time deposits as of December 31, 2022 and 2021, respectively. These balances are subject to change depending upon the cash flow needs of the public entity.

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 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, subordinated debt and junior subordinated debentures.

Information relating to securities sold under agreements to repurchase and other borrowings as December 31, 2022, 2021, and 2020 is presented below (dollars in thousands):

	2022	2021	2020
Securities sold under agreements to repurchase	$ 221,414	$ 146,268	$ 206,937
Federal Home Loan Bank advances:			
FHLB-overnite	65,000	—	—
Fixed term – due in one year or less	110,040	25,113	18,984
Fixed term – due after one year	290,031	61,333	74,985
Subordinated debt	94,553	94,400	94,253
Junior subordinated debentures	19,364	19,195	19,027
Total	$ 800,402	$ 346,309	$ 414,186
Average interest rate at end of period	2.52%	1.78%	0.81%
Maximum outstanding at any month-end:			
Securities sold under agreements to repurchase	$ 257,061	$ 212,503	$ 350,288
Federal funds purchased	10,000	—	8,000
Federal Home Loan Bank advances:			
FHLB-overnite	310,000	—	—
Fixed term – due in one year or less	160,048	30,180	34,969
Fixed term – due after one year	290,031	97,877	104,974
Subordinated debt	94,553	94,400	94,256
Junior subordinated debentures	19,364	19,195	19,027
Debt:			
Debt due in one year or less	—	—	5,000
Averages for the period (YTD):			
Securities sold under agreements to repurchase	$ 202,242	$ 173,762	$ 219,298
Federal funds purchased	481	—	525
Federal Home Loan Bank advances:			
FHLB-overnite	100,084	—	1,831
Fixed term – due in one year or less	94,247	22,751	24,858
Fixed term – due after one year	82,070	84,766	79,999
Subordinated debt	94,471	94,321	22,403
Junior subordinated debentures	19,275	19,105	18,936
Debt:			
Loans due in one year or less	14	—	656
Total	$ 592,884	$ 394,705	$ 370,338
Average interest rate during the period	2.16%	1.58%	1.07%

Securities sold under agreements to repurchase increased $75.1 million during 2022 primarily due to balances acquired from Jefferson Bank, the seasonal demands in balances and change in cash flow needs of various customers. FHLB advances represent borrowings by the First Mid Bank to economically fund loan demand. At December 31, 2022 FHLB advances totaled $465 million with a weighted-average interest rate of 3.48% and maturities from January 2023 to December 2032. At December 31, 2021 FHLB advances totaled $86 million with a weighted-average interest rate of 1.66% and maturities from March 2022 to December 2029.

The Company is party to a revolving credit agreement with The Northern Trust Company in the amount of $15 million. The balance on this line of credit was $0 as of December 31, 2022. This loan was renewed on April 8, 2022 for one year as a revolving credit agreement with a maximum available balance of $15 million. The interest rate is floating at 2.25% over the federal funds rate. The loan is secured by all of the stock of First Mid Bank. The Company and its subsidiary banks were in compliance with the existing covenants at December 31, 2022 and 2021.

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.

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. At December 31, 2022, the recorded balance of the subordinated notes was $94,553,000.

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) after June 15, 2011 (6.37% and 1.80% at December 31, 2022 and 2021, respectively). The net proceeds to the Company were used for general corporate purposes, including the Company's acquisition of Mansfield Bancorp, Inc. in 2006.

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 additional 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 (6.47% and 2.05% at December 31, 2022 and 2021, 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 additional 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 (6.62% and 1.90% at December 31, 2022 and 2021, respectively) and resets quarterly.

The trust preferred securities issued by Trust II, CLST I, and FBTCST I 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. 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 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." On December 10, 2013, the federal banking agencies issued final rules to implement the prohibitions required by the Volcker Rule. Following the publication of the final rule, and in reaction to concerns in the banking industry regarding the adverse impact the final rule's treatment of certain collateralized debt instruments has on community banks, the federal banking agencies approved a final rule to permit banking entities to retain interests in certain collateralized debt obligations backed primarily by trust preferred securities. Under the final rule, the agencies permit the retention of an interest in or sponsorship of covered funds by banking entities under $15 billion in assets 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. Although the Volcker Rule impacts many large banking entities, 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 December 31, 2022 (dollars in thousands):

	Rate Sensitive Within							
	1 year	1-2 years	2-3 years	3-4 years	4-5 years	Thereafter	Total	Fair Value
Interest-earning assets:								
Federal funds sold and other interest-bearing deposits	$ 14,021	$ —	$ —	$ —	$ —	$ —	$ 14,021	$ 14,021
Certificates of deposit investments	980	490	—	—	—	—	1,470	1,470
Taxable investment securities	4,609	98,736	96,837	81,678	104,070	552,361	938,291	938,291
Nontaxable investment securities	(53,820)	5,277	(658)	7,362	11,291	314,507	283,959	283,959
Loans	1,637,284	696,937	655,235	727,657	738,360	370,739	4,826,212	4,460,999
Total	$ 1,603,074	$ 801,440	$ 751,414	$ 816,697	$ 853,721	$ 1,237,607	$ 6,063,953	$ 5,698,740
Interest-bearing liabilities:								
Savings and NOW accounts	$ 513,747	$ 176,242	$ 176,242	$ 176,242	$ 176,242	$ 807,267	$ 2,025,982	$ 2,025,982
Money market accounts	787,564	71,231	71,231	71,231	71,231	195,238	1,267,726	1,267,726
Other time deposits	409,987	200,771	32,568	15,970	47,126	357	706,779	707,526
Short-term borrowings/debt	221,414	—	—	—	—	—	221,414	286,262
Long-term borrowings/debt	194,404	60,029	104,555	—	150,000	70,000	578,988	499,466
Total	$ 2,127,116	$ 508,273	$ 384,596	$ 263,443	$ 444,599	$ 1,072,862	$ 4,800,889	$ 4,786,962
Rate sensitive assets – rate sensitive liabilities	$ (524,042)	$ 293,167	$ 366,818	$ 553,254	$ 409,122	$ 164,745	$ 1,263,064	
Cumulative GAP	$ (524,042)	$ (230,875)	$ 135,943	$ 689,197	$ 1,098,319	$ 1,263,064		
Cumulative amounts as % of total rate sensitive assets	(8.6)%	4.8%	6.0%	9.1%	6.7%	2.7%		
Cumulative ratio	(8.6)%	(3.8)%	2.2%	11.4%	18.1%	20.8%		

The static GAP analysis shows that at December 31, 2022, 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 December 31, 2022, the Company's stockholders' equity had decreased approximately $0.7 million, or 0.1%, to $633.2 million from $633.9 million as of December 31, 2021. During 2022, net income contributed $73.0 million to equity before the payment of dividends to stockholders of $17.8 million. The change in market value of available-for-sale investment securities decreased stockholders' equity by $150.7 million, net of tax.

Stock Plans

Deferred Compensation Plan. The Company follows the provisions of the Emerging Issues Task Force Issue No. 97-14, "*Accounting for Deferred Compensation Arrangements Where Amounts Earned Are Held in a Rabbi Trust and Invested*" ("EITF 97-14"), which was codified into ASC 710-10, for purposes of the First Mid Bancshares, Inc. Amended and Restated Deferred Compensation Plan ("DCP"). At December 31, 2022, the Company classified the cost basis of its common stock issued and held in trust in connection with the DCP of approximately $4,799,000 as treasury stock. The Company also classified the cost basis of its related deferred compensation obligation of approximately $4,799,000 as an equity instrument (deferred compensation).

The DCP was effective as of June 1984. The purpose of the DCP is to enable directors, advisory directors, and key employees the opportunity to defer a portion of the fees and cash compensation paid by the Company as a means of maximizing the effectiveness and flexibility of compensation arrangements. The Company invests all participants' deferrals in shares of common stock. Dividends paid on the shares are credited to participants' DCP accounts and invested in additional shares. The Company issued, pursuant to DCP:

- 8,378 common shares during 2022
- 9,513 common shares during 2021, and
- 12,921 common shares during 2020

First Retirement and Savings Plan. The First Retirement Savings Plan ("401(k) plan") was effective beginning in 1985. Employees are eligible to participate in the 401(k) plan after three months of service with the Company. The Company offers common stock as an investment option for participants of the 401(k) plan. Beginning in 2016, shares for the 401(k) plan were purchased in the open market instead of being issued by the Company.

Dividend Reinvestment Plan. The Dividend Reinvestment Plan ("DRIP") was effective as of October 1994. The purpose of the DRIP is to provide participating stockholders with a simple and convenient method of investing cash dividends paid by the Company on its common and preferred shares into newly issued common shares of the Company. All holders of record of the Company's common or preferred stock are eligible to voluntarily participate in the DRIP. The DRIP is administered by Computershare Investor Services, LLC and offers a way to increase one's investment in the Company. Of the $17,830,000 in common stock dividends paid during 2022, $0 or 0.0% was reinvested into shares of common stock of the Company through the DRIP. Approximately $0, $333,000 and $680,000 of common stock was issued through reinvestment of dividends during 2022, 2021, and 2020, respectively. Beginning in mid-2021, shares for dividend reinvestment were purchased in the open market instead of being issued by the Company.

Stock Incentive Plan. 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.

A maximum of 149,983 shares of common stock may be issued under the SI Plan. During 2022, 2021, and 2020, the Company awarded 63,150 and 48,575, and 25,950 shares as stock and stock unit awards, respectively. This SI Plan is more fully described in Note 13 - Stock Incentive Plan.

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 2022, the Company repurchased 10,647 shares (0.05% of common shares) at a total price of approximately $341,000. During 2021, the Company repurchased 7,752 (0.05% of common shares) at a total price of approximately $326,000. All of these shares were a result of shares withheld for taxes on vested employee stock incentives. As of December 31, 2022, approximately $4.1 million remains available for purchase under the repurchase programs. Treasury stock is further affected by activity in the DCP.

Employee Stock Purchase Plan. At the Annual Meeting of Stockholders held April 25, 2018, the stockholders approved the First Mid Bancshares, Inc. Employee Stock Purchase Plan ("ESPP"). The ESPP provides eligible employees with the opportunity to purchase shares of common stock of the Company at a 15% discount through payroll deductions. The ESPP is 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 December 31, 2022, 2021, and 2020, 23,055, 11,748, and 11,037 shares, respectively were issued pursuant to ESPP.

Capital Ratios

For 2022, the minimum regulatory ratios required for minimum capital adequacy purposes plus the capital buffer are 10.5% for the Total Risk-based capital ratio, 8.5% for the Tier 1 Risk-based capital ratio, 7.0% for the Common Equity Tier 1 capital ratio, and 4.0% for the Tier 1 Leverage ratio. The Company and First Mid Bank have capital ratios above the minimum regulatory capital requirements and, as of December 31, 2022, the Company and First Mid Bank had capital ratios above the levels required for categorization as well-capitalized under the capital adequacy guidelines established by the bank regulatory agencies. A tabulation of the Company and First Mid Bank's capital ratios as of December 31, 2022 follows:

	Total Risk-based Capital Ratio	Tier One Risk-based Capital Ratio	Common Equity Tier 1 Capital Ratio	Tier One Leverage Ratio (Capital to Average Assets)
First Mid Bancshares, Inc. (Consolidated)	15.20%	12.40%	12.03%	9.68%
First Mid Bank	14.18%	13.17%	13.17%	10.22%

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, 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 for these sources include:

- First Mid Bank has $100 million available in overnight federal fund lines, including $30 million from First Horizon Bank, $20 million from U.S. Bank, N.A., $10 million from Wells Fargo Bank, N.A., $15 million from The Northern Trust Company and $25 million from Zions Bank. 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 December 31, 2022, 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. At December 31, 2022, the excess collateral at the FHLB would support approximately $582.1 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 December 31, 2022, the Company had a revolving credit agreement in the amount of $15 million with The Northern Trust Company with an outstanding balance of $0 million and $15 million in available funds. This loan was renewed on April 8, 2022 for one year as a revolving credit agreement. The interest rate is floating at 2.25% over the federal funds rate. The loan is secured by all of the stock of First Mid Bank and includes requirements for operating and capital ratios. The Company and its subsidiary banks were in compliance with the existing covenants at December 31, 2022 and 2021.

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 December 31, 2022 (in thousands):

	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Time deposits	$ 706,779	$ 409,987	$ 233,339	$ 63,096	$ 357
Debt	113,917	—	—	3,922	109,995
Other borrowings	686,485	396,454	70,031	150,000	70,000
Operating leases	17,969	2,945	4,817	3,917	6,290
Supplemental retirement	1,798	50	100	150	1,498
	$ 1,526,948	$ 809,436	$ 308,287	$ 221,085	$ 188,140

For the year ended December 31, 2022, net cash of $65.8 million was provided from operating activities, $178.7 million was used in investing activities, and $96.7 million was provided by financing activities. In total cash and cash equivalents decreased by $16.2 million from year-end 2021.

For the year ended December 31, 2021, net cash of $69.6 million was provided from operating activities, $482.5 million was used in investing activities, and $164.2 million was provided by financing activities. In total cash and cash equivalents decreased by $248.7 million from year-end 2020.

For the year ended December 31, 2020, net cash of $63.5 million was provided from operating activities, $562.4 million was used in investing activities, and $831.1 million was provided by financing activities. In total cash and cash equivalents increased by $332.2 million from year-end 2019.

For the years ended December 31, 2022 and 2021, the Company also had $10 million of floating rate trust preferred securities outstanding through Trust II, and in September 2016, the Company acquired $4 million of floating rate trust preferred securities from First Clover Leaf under Clover Leaf Statutory Trust I and on May 1, 2018, the Company acquired $6 million of floating rate trust preferred securities from First BancTrust Corporation. See Note 9 – “Borrowings” for a more detailed description.

Effects of Inflation

Unlike industrial companies, virtually all of the assets and liabilities of the Company are monetary in nature. As a result, interest rates have a more significant impact on the Company’s performance than the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or experience the same magnitude of changes as goods and services, since such prices are affected by inflation. In the current economic environment, liquidity and interest rate adjustments are features of the Company’s assets and liabilities that are important to the maintenance of acceptable performance levels. The Company attempts to maintain a balance between monetary assets and monetary liabilities, over time, to offset these potential effects.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's market risk arises primarily from interest rate risk inherent in its lending, investing and deposit taking activities, which are restricted to First Mid Bank. For a discussion of how management of the Company addresses and evaluates interest rate risk see also "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Interest Rate Sensitivity."

Based on the financial analysis performed as of December 31, 2022, which considers how the specific interest rate scenario would be expected to impact each interest-earning asset and each interest-bearing liability, the Company estimates that changes in the prime interest rate would impact First Mid Bank's performance, on a consolidated basis, as follows:

December 31, 2022	**Increase (Decrease) In**			
	Net Interest Income			**Return On Average Equity 2022=11.38%**
		($000)	**(%)**	
Prime rate is 7.50%				
Prime rate increase of:				
200 basis points to 9.50%	$	(331)	(0.21)%	(0.05)%
100 basis points to 8.50%		36	0.02%	0.01%
Prime rate decrease of:				
100 basis points to 6.50%		1,863	1.17%	0.26%
200 basis points to 5.50%		2,044	1.29%	0.28%

The following table shows the same analysis for First Mid Bank performance as of December 31, 2021:

December 31, 2021	**Increase (Decrease) In**			
	Net Interest Income			**Return On Average Equity 2021=8.38%**
		($000)	**(%)**	
Prime rate is 3.25%				
Prime rate increase of:				
200 basis points to 5.25%	$	4,318	3.07%	0.64%
100 basis points to 4.25%		2,136	1.52%	0.32%
Prime rate decrease of:				
100 basis points to 2.25%		(3,733)	(2.65)%	(0.56)%
200 basis points to 1.25%		(8,798)	(6.25)%	(1.33)%

The Company's Board of Directors has adopted an interest rate risk policy that establishes maximum decreases in the percentage change in net interest income of 5% in a 100 basis point rate shift and 10% in a 200 basis point rate shift. No assurance can be given that the actual net interest income would increase or decrease by such amounts in response to a 100 or 200 basis point increase or decrease in the prime rate because it is also affected by many other factors. The results above are based on one-time "shock" moves and ramped rate increases and do not take into account any management response or mitigating action.

Interest rate sensitivity analysis is also used to measure the Company's interest risk by computing estimated changes in the Economic Value of Equity ("EVE") of the First Mid Bank under various interest rate shocks. EVE is determined by calculating the net present value of each asset and liability category by rate shock. The net differential between assets and liabilities is the EVE. EVE is an expression of the long-term interest rate risk in the balance sheet as a whole.

The following table presents the Company's projected change in EVE, on a consolidated basis, for the various rate shock levels at December 31, 2022 and 2021 (in thousands). All market risk sensitive instruments presented in the tables are held-to-maturity or available-for-sale. The Bank has no trading securities.

	Changes In			
		Economic Value of Equity		
	Interest Rates (basis points)		**Amount of Change ($000)**	**Percent of Change (%)**
December 31, 2022	+200 bp	$	(30,992)	(3.0)%
	+100 bp		(13,333)	(1.3)%
	-200 bp		16,153	1.6%
	-100 bp		17,371	1.7%
December 31, 2021	+200 bp	$	11,491	1.5%
	+100 bp		10,830	1.4%
	-200 bp		(231,797)	(29.6)%
	-100 bp		(96,739)	12.3%

As indicated above, at December 31, 2022, in the event of a sudden and sustained increase in prevailing market interest rates, the EVE would be expected to decrease if rates increased 100 or 200 basis points. In the event of a sudden and sustained decrease in prevailing market interest rates, the Company's EVE would be expected to increase. At December 31, 2022, the estimated changes in EVE were inside the Company’s policy guidelines that normally allow for a change in capital of +/-10% from the base case scenario under a 100 basis point shock and within the guidelines of +/- 20% from the base case scenario under a 200 basis point shock. The general level of interest rates are at historically low levels and the bank is monitoring its position and the likelihood of further rate changes.

Computation of prospective effects of hypothetical interest rate changes are based on numerous assumptions, including relative levels of market interest rates, loan prepayments and declines in deposit balances, and should not be relied upon as indicative of actual results. Further, the computations do not contemplate any actions the Company may undertake in response to changes in interest rates.

Certain shortcomings are inherent in the method of analysis presented in the computation of EVE. Actual values may differ from those projections set forth in the table, should market conditions vary from assumptions used in the preparation of the table. Certain assets, such as adjustable-rate loans, have features that restrict changes in interest rates on a short-term basis and over the life of the asset. In addition, the proportion of adjustable-rate loans in First Mid Bank's portfolio change in future periods as market rates change. Further, in the event of a change in interest rates, prepayment and early withdrawal levels would likely deviate significantly from those assumed in the table. Finally, the ability of many borrowers to repay their adjustable-rate debt may decrease in the event of an interest rate increase.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Consolidated Balance Sheets
December 31, 2022 and 2021

(In thousands, except share data)	2022	2021
Assets		
Cash and due from banks:		
Non-interest bearing	$ 138,412	$ 90,907
Interest bearing	6,394	76,335
Federal funds sold	7,627	1,360
Cash and cash equivalents	152,433	168,602
Certificates of deposit investments	1,470	2,450
Investment securities:		
Available-for-sale, at fair value	1,218,985	1,421,422
Held-to-maturity, at amortized cost (estimated fair value of $2,954 and $7,035 at December 31, 2022 and 2021, respectively)	2,954	7,030
Equity securities, at fair value	311	397
Loans held for sale	338	2,748
Loans	4,825,874	3,992,775
Less allowance for credit losses	(59,093)	(54,655)
Net loans	4,766,781	3,938,120
Interest receivable	28,357	19,868
Other real estate owned	4,261	4,984
Premises and equipment, net	90,473	81,484
Goodwill, net	140,412	111,853
Intangible assets, net	29,485	29,523
Bank owned life insurance	151,756	132,375
Right of use asset	15,774	15,116
Deferred tax asset, net	72,254	7,299
Other assets	68,171	43,311
Total assets	$ 6,744,215	$ 5,986,582
Liabilities and stockholders' equity		
Deposits:		
Non-interest bearing	$ 1,256,514	$ 1,246,673
Interest bearing	4,000,487	3,709,813
Total deposits	5,257,001	4,956,486
Repurchase agreements with customers	221,414	146,268
Interest payable	3,346	1,346
FHLB borrowings	465,071	86,446
Junior subordinated debentures, net	19,364	19,195
Subordinated debt, net	94,553	94,400
Lease liability	16,035	15,322
Other liabilities	34,276	33,225
Total liabilities	6,111,060	5,352,688
Stockholders' equity:		
Common stock, $4 par value; authorized 30,000,000 shares; issued 21,091,466 shares in 2022 and 18,708,746 shares in 2021; outstanding 20,452,376 shares in 2022 and 18,080,303 shares in 2021	86,366	76,835
Additional paid-in capital	427,001	340,419
Retained earnings	289,284	234,162
Deferred compensation	2,064	2,517
Accumulated other comprehensive loss	(151,507)	(831)
Less treasury stock at cost, 639,090 shares in 2022 and 628,443 shares in 2021	(20,053)	(19,208)
Total stockholders' equity	633,155	633,894
Total liabilities and stockholders' equity	$ 6,744,215	$ 5,986,582

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income
For the years ended December 31, 2022, 2021, and 2020

(In thousands, except per share data)	2022	2021	2020
Interest income:			
Interest and fees on loans	$ 185,869	$ 159,684	$ 126,814
Interest on investment securities			
Taxable	20,595	15,598	11,449
Exempt from federal income tax	8,785	7,318	5,517
Interest on certificates of deposit investments	37	56	84
Interest on federal funds sold	113	—	3
Interest on deposits with other financial institutions	492	357	274
Total interest income	215,891	183,013	144,141
Interest expense:			
Interest on deposits	18,813	9,037	12,751
Interest on securities sold under agreements to repurchase	1,795	231	488
Interest on FHLB borrowings	6,184	1,514	1,851
Interest on other borrowings	9	—	26
Interest on junior subordinated debentures	868	541	682
Interest on subordinated debt	3,945	3,939	931
Total interest expense	31,614	15,262	16,729
Net interest income	184,277	167,751	127,412
Provision for loan losses	4,806	15,151	16,103
Net interest income after provision for loan losses	179,471	152,600	111,309
Other income:			
Wealth management revenues	22,492	20,407	16,153
Insurance commissions	21,622	18,927	17,477
Service charges	9,112	6,808	5,862
Securities gains, net	33	124	1,106
Mortgage banking revenue, net	1,190	4,718	5,075
ATM / debit card revenue	12,422	11,974	8,962
Bank owned life insurance	3,559	3,039	1,730
Other income	4,252	3,770	3,155
Total other income	74,682	69,767	59,520
Other expense:			
Salaries and employee benefits	98,594	89,660	66,452
Net occupancy and equipment expense	24,257	21,546	16,708
Net other real estate owned expense	330	3,866	42
FDIC insurance expense	1,805	1,604	1,309
Amortization of intangible assets	6,290	5,391	5,062
Stationery and supplies	1,295	1,161	1,080
Legal and professional	6,996	6,730	5,427
ATM / debit card expense	4,300	3,116	2,290
Marketing and donations	2,999	3,603	1,616
Other expense	15,995	18,902	11,101
Total other expense	162,861	155,579	111,087
Income before income taxes	91,292	66,788	59,742
Income taxes	18,340	15,298	14,472
Net income	$ 72,952	$ 51,490	$ 45,270
Per share data:			
Basic net income per common share	$ 3.62	$ 2.88	$ 2.71
Diluted net income per common share	3.60	2.87	2.70
Cash dividends declared per common share	0.90	0.85	0.81

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income (Loss)
For the years ended December 31, 2022, 2021, and 2020

(In thousands)	2022	2021	2020
Net income	$ 72,952	$ 51,490	$ 45,270
Other comprehensive income (loss)			
Unrealized gains (losses) on available-for-sale securities, net of taxes of $61,534, $7,285, and $(3,873) for the years ended December 31, 2022, 2021 and 2020, respectively	(150,653)	(17,838)	9,485
Unamortized holding losses on held to maturity securities transferred from available for sale, net of taxes of $0, $0, and $(15) for December 31, 2022, 2021 and 2020, respectively	—	—	35
Less: reclassification adjustment for realized gains included in net income net of taxes of $10, $36, and $321 for the years ended December 31, 2022, 2021 and 2020, respectively	(23)	(88)	(785)
Other comprehensive income (loss), net of taxes	(150,676)	(17,926)	8,735
Comprehensive income (loss)	$ (77,724)	$ 33,564	$ 54,005

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Stockholders' Equity
For the years ended December 31, 2022, 2021, and 2020
(In thousands, except share and per share data)

	Common Stock	Additional Paid-In-Capital	Retained Earnings	Deferred Compensation	Accumulated Other Comprehensive Loss	Treasury Stock	Total
December 31, 2021	**$ 76,835**	**$ 340,419**	**$ 234,162**	**$ 2,517**	**$ (831)**	**$ (19,208)**	**$ 633,894**
Net income	—	—	72,952	—	—	—	72,952
Other comprehensive loss, net of tax	—	—	—	—	(150,676)	—	(150,676)
Dividends on common stock ($.90 per share)	—	—	(17,830)	—	—	—	(17,830)
Issuance of 8,378 common shares pursuant to the deferred compensation plan	34	297	—	—	—	—	331
Issuance of 54,067 restricted common shares pursuant to the 2017 stock incentive plan	216	2,013	—	—	—	—	2,229
Issuance of 4,950 common shares pursuant to the 2017 stock incentive plan	20	179	—	—	—	—	199
Issuance of 23,055 common shares pursuant to employee stock purchase plan	92	621	—	—	—	—	713
Issuance of 2,292,270 common shares pursuant to acquisition of Delta Banshares, Co., net proceeds	9,169	83,003	—	—	—	—	92,172
Issuance costs pursuant to acquisition of Delta Bancshares Company	—	(29)	—	—	—	—	(29)
Purchase of 10,647 treasury shares	—	—	—	—	—	(340)	(340)
Deferred compensation	—	—	—	(2,037)	—	(505)	(2,542)
Grant of restricted stock units pursuant to the 2017 stock incentive plan	—	1,529	—	—	—	—	1,529
Release of restricted stock units pursuant to the 2017 stock incentive plan	—	(1,216)	—	—	—	—	(1,216)
Vested restricted shares/units compensation expense	—	185	—	1,584	—	—	1,769
December 31, 2022	**$ 86,366**	**$ 427,001**	**$ 289,284**	**$ 2,064**	**$ (151,507)**	**$ (20,053)**	**$ 633,155**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Stockholders' Equity
For the years ended December 31, 2022, 2021, and 2020
(In thousands, except share and per share data)

	Common Stock	Additional Paid-In-Capital	Retained Earnings	Deferred Compensation	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
December 31, 2020	**$ 71,449**	**$ 297,806**	**$ 197,726**	**$ 2,980**	**$ 17,095**	**$ (18,828)**	**$ 568,228**
Net income	—	—	51,490	—	—	—	51,490
Other comprehensive loss, net of tax	—	—	—	—	(17,926)	—	(17,926)
Dividends on common stock ($.850 per share)	—	—	(15,054)	—	—	—	(15,054)
Issuance of 8,616 common shares pursuant to the dividend reinvestment plan	32	301	—	—	—	—	333
Issuance of 9,513 common shares pursuant to the deferred compensation plan	38	313	—	—	—	—	351
Issuance of 27,750 restricted common shares pursuant to the 2017 stock incentive plan	111	817	—	—	—	—	928
Issuance of 2,375 common shares pursuant to the 2017 stock incentive plan	10	75	—	—	—	—	85
Issuance of 1,262,246 common shares pursuant to acquisition of LINCO Bancshares, Inc., net proceeds	5,049	39,142	—	—	—	—	44,191
Issuance of 25,000 common shares pursuant to acquisition of BBM & Associates, Inc., net proceeds	100	1,009	—	—	—	—	1,109
Issuance costs pursuant to acquisition of Delta Bancshares Company	—	(206)	—	—	—	—	(206)
Issuance of 11,748 common shares pursuant to employee stock purchase plan	46	345	—	—	—	—	391
Purchase of 7,752 treasury shares	—	—	—	—	—	(326)	(326)
Deferred compensation	—	—	—	54	—	(54)	—
Grant of restricted stock units pursuant to the 2017 stock incentive plan	—	1,216	—	—	—	—	1,216
Release of restricted stock units pursuant to the 2017 stock incentive plan	—	(584)	—	—	—	—	(584)
Vested restricted shares/units compensation expense	—	185	—	(517)	—	—	(332)
December 31, 2021	**$ 76,835**	**$ 340,419**	**$ 234,162**	**$ 2,517**	**$ (831)**	**$ (19,208)**	**$ 633,894**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Stockholders' Equity
For the years ended December 31, 2022, 2021, and 2020
(In thousands, except share and per share data)

	Common Stock	Additional Paid-In-Capital	Retained Earnings	Deferred Compensation	Accumulated Other Comprehensive Income	Treasury Stock	Total
December 31, 2019	**$ 71,152**	**$ 295,925**	**$ 166,667**	**$ 2,760**	**$ 8,360**	**$ (18,255)**	**$ 526,609**
Cumulative change in accounting principal for adoption of ASU 2016-13	—	—	(717)	—	—	—	(717)
December 31, 2019 (as adjusted for change in accounting principal)	71,152	295,925	165,950	2,760	8,360	(18,255)	525,892
Net income	—	—	45,270	—	—	—	45,270
Other comprehensive income, net of tax	—	—	—	—	8,735	—	8,735
Dividends on common stock ($.810 per share)	—	—	(13,494)	—	—	—	(13,494)
Issuance of 13,804 common shares pursuant to the dividend reinvestment plan	102	578	—	—	—	—	680
Issuance of 12,921 common shares pursuant to the deferred compensation plan	52	313	—	—	—	—	365
Issuance of 24,867 restricted common shares pursuant to the 2017 stock incentive plan	99	758	—	—	—	—	857
Issuance of 11,037 common shares pursuant to employee stock purchase plan	44	201	—	—	—	—	245
Purchase of 6,288 treasury shares	—	—	—	—	—	(213)	(213)
Deferred compensation	—	—	—	360	—	(360)	—
Tax benefit related to deferred compensation distributions	—	22	—	—	—	—	22
Grant of restricted stock units pursuant to the 2017 stock incentive plan	—	584	—	—	—	—	584
Release of restricted stock units pursuant to the 2017 stock incentive plan	—	(516)	—	—	—	—	(516)
Vested restricted shares/units compensation expense	—	(59)	—	(140)	—	—	(199)
December 31, 2020	**$ 71,449**	**$ 297,806**	**$ 197,726**	**$ 2,980**	**$ 17,095**	**$ (18,828)**	**$ 568,228**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows
For the years ended December 31, 2022, 2021, and 2020

(In thousands)	2022	2021	2020
Cash flows from operating activities:			
Net income	$ 72,952	$ 51,490	$ 45,270
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	4,806	15,151	16,103
Depreciation, amortization and accretion, net	15,060	14,449	11,721
Change in cash surrender value of bank owned life insurance	(3,559)	(3,039)	(1,730)
Stock-based compensation expense	1,802	1,304	774
Operating lease payments	(3,061)	(2,872)	(2,766)
Gains on investment securities, net	(33)	(124)	(1,106)
Losses on sales of other real property owned, net	97	5,725	195
Gain on write down of premises and equipment	—	—	(5)
(Gain) loss on sale of other assets	125	(126)	—
Gains on sale of loans held for sale, net	(1,159)	(4,256)	(5,248)
Deferred income taxes	(2,232)	(3,355)	(4,963)
Decrease (increase) in accrued interest receivable	(6,717)	2,384	(3,710)
Increase (decrease) in accrued interest payable	1,538	(1,812)	327
Origination of loans held for sale	(59,893)	(149,807)	(196,469)
Proceeds from sale of loans held for sale	63,462	153,239	201,613
Gains on equity securities	(1,145)	(499)	(133)
Increase in other assets	(19,537)	(13,719)	(2,045)
Increase in other liabilities	3,318	5,463	5,713
Net cash provided by operating activities	65,824	69,596	63,541
Cash flows from investing activities:			
Proceeds from maturities of certificates of deposit investments	1,225	490	2,910
Purchase of certificates of deposit investments	(245)	(245)	(980)
Proceeds from sales of securities available-for-sale	36,257	611	9,061
Proceeds from maturities of securities available-for-sale	144,734	238,049	324,148
Proceeds from maturities of securities held-to-maturity	5,000	—	55,000
Purchases of securities available-for-sale	(12,754)	(692,234)	(506,458)
Net increase in loans	(416,204)	(32,032)	(445,694)
Purchases of premises and equipment	(5,020)	(3,702)	(2,463)
Proceeds from sales of other real property owned	996	9,503	2,054
Investment in Bank Owned Life Insurance	—	(30,000)	—
Net cash provided by acquisition	67,323	27,061	—
Net cash used in investing activities	(178,688)	(482,499)	(562,422)
Cash flows from financing activities:			
Net increase (decrease) in deposits	(259,862)	273,292	775,418
Decrease in federal funds purchased	—	—	(5,000)
Increase (decrease) in repurchase agreements	39,623	(60,669)	(1,172)
Proceeds from FHLB advances	359,745	5,000	19,000
Repayment of FHLB advances	(25,856)	(40,083)	(39,000)
Proceeds from short-term debt	—	—	5,000
Proceeds from long-term debit	—	—	94,253
Repayment of short-term debt	—	—	(5,000)
Proceeds from issuance of common stock	1,244	1,937	610
Direct expenses related to capital transactions	(29)	(206)	—
Purchase of treasury stock	(340)	(326)	(213)
Dividends paid on common stock	(17,830)	(14,721)	(12,814)
Net cash provided by financing activities	96,695	164,224	831,082
Increase (decrease) in cash and cash equivalents	(16,169)	(248,679)	332,201
Cash and cash equivalents at beginning of period	168,602	417,281	85,080
Cash and cash equivalents at end of period	$ 152,433	$ 168,602	$ 417,281

Consolidated Statements of Cash Flows (continued)
For the years ended December 31, 2022, 2021, and 2020

(In thousands)	2022	2021	2020
Supplemental disclosures of cash flow information			
Cash paid during the period for:			
Interest	$ 29,614	$ 16,261	$ 16,645
Income taxes	22,988	18,966	18,624
Supplemental disclosures of noncash investing and financing activities			
Loans transferred to other real estate owned	$ 383	$ 249	$ 783
Fixed assets transferred to other real estate	—	3,971	—
Initial recognition of right-of-use assets	715	—	—
Initial recognition of lease liabilities	715	—	—
Dividends reinvested in common stock	—	333	680
Net tax benefit related to option and deferred compensation plans	—	—	22
Supplemental disclosure of purchase of capital stock			
Fair value of assets acquired	$ 750,063	$ 1,170,699	
Consideration paid:			
Cash paid	15,150	103,500	
Common stock issued	92,172	44,191	
Total consideration paid	107,322	147,691	
Fair value of liabilities assumed	$ 642,741	$ 1,023,008	

See accompanying notes to consolidated financial statements.

First Mid Bancshares, Inc.

Notes to Condensed Consolidated Financial Statements

Note 1 – Basis of Accounting and Consolidation

The accompanying 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. Certain amounts in the prior year’s consolidated financial statements have been reclassified to conform to the 2022 presentation and there was no impact on net income or stockholders’ equity from these reclassifications. The Company operates as a single segment entity for financial reporting purposes. The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America.

Acquisitions

Delta Bancshares Company. On July 28, 2021, the Company and Brock Sub LLC, a newly formed Delaware limited liability company and wholly-owned subsidiary of the Company (“Delta Merger Sub”), entered into an Agreement and Plan of Merger (the “Delta Merger Agreement”) with Delta Bancshares Company, a Missouri corporation (“Delta”), pursuant to which, among other things, the Company agreed to acquire 100% of the issued and outstanding shares of Delta pursuant to a business combination whereby Delta will merge with and into Delta Merger Sub, whereupon the separate corporate existence of Delta will cease and Delta Merger Sub will continue as the surviving company and a wholly-owned subsidiary of First Mid (the “Delta Merger”). The Delta Merger was completed on February 14, 2022.

Subject to the terms and conditions of the Delta Merger Agreement, at the effective time of the Delta Merger, each share of common stock, par value $10.00 per share, of Delta issued and outstanding immediately prior to the effective time of the Delta Merger (other than shares held in treasury by Delta) converted into and became the right to receive cash and shares of common stock, par value $4.00 per share, of the Company 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 paid by the Company at the closing of the Delta Merger to Delta’s shareholders and option holders was approximately $15.2 million in cash and 2,292,270 shares of Company common stock. Delta’s outstanding stock options vested upon consummation of the Delta Merger, and all outstanding Delta options that were unexercised prior to the effective time of the Delta Merger were cashed out.

Delta's wholly owned bank subsidiary, Jefferson Bank, was merged with and into First Mid Bank on June 10, 2022. At the time of the bank merger, Jefferson Bank's banking offices became branches of First Mid Bank.

LINCO Bancshares, Inc. On September 25, 2020, the Company and Eval Sub Inc., a wholly owned subsidiary of the Company ("LINCO Merger Sub"), entered into an Agreement and Plan of Merger (the "LINCO Merger Agreement") with LINCO Bancshares, Inc., the former parent of Providence Bank ("LINCO"), and the sellers as defined therein, pursuant to which, among other things, the Company agreed to acquire 100% of the issued and outstanding shares of LINCO pursuant to a business combination whereby LINCO Merger Sub merged with and into LINCO, whereupon the separate corporate existence of LINCO Merger Sub ceased and LINCO continued as the surviving company and a wholly owned subsidiary of the Company (the "LINCO Merger").

Subject to the terms and conditions of the LINCO Merger Agreement, at the effective time of the LINCO Merger, each share of common stock, par value $1.00 per share, of LINCO issued and outstanding immediately prior to the effective time of the LINCO Merger (other than shares held in treasury by LINCO) was converted into and become the right to receive, cash or shares of common stock, par value $4.00 per share, of the Company 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 the Company at the closing of the LINCO Merger was $103.5 million in cash and 1,262,246 shares of the Company’s common stock, provided that the shareholders of LINCO collectively elected pursuant to the LINCO Merger Agreement to receive varying amounts of cash or shares of common stock of the Company as consideration in the Merger. In addition, immediately prior to the closing of the LINCO merger, LINCO paid a special dividend to its shareholders in the aggregate amount of $13 million.

The LINCO Merger closed on February 22, 2021, and Providence Bank merged into First Mid Bank on May 15, 2021.

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.

2021 Loan Purchase

During 2021, First Mid Bank completed an acquisition of loans in the St. Louis Metro market totaling $208 million. There were no loans purchased with deteriorated credit. First Mid Bank also assumed $219 million of related customer deposits and recorded a core deposit intangible asset of approximately $4.9 million that is being amortized on an accelerated basis over ten years.

Summary of Significant Accounting Policies

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires the Company to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The Company uses estimates and employs the judgments of management in determining the amount of its allowance for credit losses and income tax accruals and deferrals, in its fair value measurements of investment securities, and in the evaluation of impairment of loans, goodwill, investment securities, and premises and equipment. As with any estimate, actual results could differ from these estimates. Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for credit losses. In connection with the determination of the allowance for credit losses, management obtains independent appraisals for significant properties.

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.

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 11 – "Disclosures of Fair Values of Financial Instruments."

Cash and Cash Equivalents

For purposes of reporting cash flows, cash equivalents include non-interest bearing and interest-bearing cash and due from banks and federal funds sold. Generally, federal funds are sold for one-day periods.

Certificates of Deposit Investments

Certificates of deposit investments have original maturities of three to five years and are carried at cost.

Investment Securities

The Company classifies its investments in debt securities as either held-to-maturity or available-for-sale in accordance with ASC 320. Securities classified as held-to-maturity are recorded at cost or 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.

Loans

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

The Company's policy is to discontinue the accrual of interest income on any loan that becomes ninety days past due as to principal or interest or earlier when, in the opinion of management there is reasonable doubt as to the timely collection of principal or interest. 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 collectability of interest or principal.

Loans expected to be sold are classified as held for sale in the consolidated financial statements and are recorded at the lower of aggregate cost or fair value, taking into consideration future commitments to sell the loans.

Allowance for Credit Losses

The Company believes the allowance for credit losses is the critical accounting policy that requires the most significant judgments and assumptions used in the preparation of its consolidated financial statements. An estimate of potential losses inherent in the loan portfolio is 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 organizational history and experience with credit decisions and related outcomes. The allowance for credit losses represents the best estimate of losses inherent in the existing loan portfolio. The allowance for credit losses is increased by the provision for loan losses charged to expense and reduced by loans charged off, net of recoveries. The Company evaluates the allowance for credit losses at least quarterly. If the underlying assumptions later prove to be inaccurate based on subsequent loss evaluations, the allowance for credit losses is adjusted.

The Company estimates the appropriate level of allowance for credit losses by separately evaluating impaired and nonimpaired loans. A specific allowance is assigned to an impaired loan when expected cash flows or collateral do not justify the carrying amount of the loan. The methodology used to assign an allowance to a nonimpaired loan is more subjective. Generally, the allowance assigned to nonimpaired loans is determined by applying historical loss rates to existing loans with similar risk characteristics, adjusted for qualitative factors including the volume and severity of identified classified loans, changes in economic conditions, changes in credit policies or underwriting standards, and changes in the level of credit risk associated with specific industries and markets. Because the economic and business climate in any given industry or market, and its impact on any given borrower, can change rapidly, the risk profile of the loan portfolio is continually assessed and adjusted when appropriate. Notwithstanding these procedures, there still exists the possibility that the assessment could prove to be significantly incorrect and that an immediate adjustment to the allowance for credit losses would be required.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are charged to expense and determined principally by the straight-line method over the estimated useful lives of the assets. The estimated useful lives for each major depreciable classification of premises and equipment are as follows:

Buildings and improvements	20 years to 40 years
Leasehold improvements	5 years to 15 years
Furniture and equipment	3 years to 7 years

Goodwill and Intangible Assets

The Company has goodwill from business combinations, identifiable intangible assets assigned to core deposit relationships and customer lists acquired, and intangible assets arising from the rights to service mortgage loans for others.

Identifiable intangible assets generally arise from branches acquired that the Company accounted for as purchases. Such assets consist of the excess of the purchase price over the fair value of net assets acquired, with specific amounts assigned to core deposit relationships and customer lists primarily related to insurance agency. Intangible assets are amortized by the straight-line method over various periods up to fifteen years. Management reviews intangible assets for possible impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

In accordance with the provisions of SFAS No. 142, "*Goodwill and Other Intangible Assets*," codified into ASC 350, the Company obtained an independent evaluation of its goodwill as of June 30, 2020 and also performed its annual testing of goodwill for impairment as of September 30, 2022 and each time 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.

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 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 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.

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.

Federal Home Loan Bank Stock

Federal Home Loan Bank stock is a required investment for institutions that are members of the Federal Home Loan Bank system. The required investment in the common stock is based on a predetermined formula and carried at cost.

Income Taxes

The Company and its subsidiaries file consolidated federal and state income tax returns with each organization computing its taxes on a separate company basis. Amounts provided for income tax expense are based on income reported for financial statement purposes rather than amounts currently payable under tax laws.

Deferred tax assets and liabilities are recognized for future tax consequences attributable to the temporary differences existing between the financial statement carrying amounts of assets and liabilities and their respective tax basis, as well as operating loss and tax credit carry forwards. To the extent that current available evidence about the future raises doubt about the realization of a deferred tax asset, a valuation allowance is established. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized as an increase or decrease in income tax expense in the period in which such change is enacted.

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 actually 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.

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 the 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 $2,450,000, 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.

Wealth Management Assets

Assets held in fiduciary or agency capacities by First Mid Wealth Management Company are not included in the consolidated balance sheets since such items are not assets of the Company or its subsidiaries. Fees from trust activities are recorded on a cash basis over the period in which the service is provided. Fees are a function of the market value of assets managed and administered, the volume of transactions, and fees for other services rendered, as set forth in the underlying client agreement with the First Mid Wealth Management Company. This revenue recognition involves the use of estimates and assumptions, including components that are calculated based on asset valuations and transaction volumes. Any out-of-pocket expenses or services not typically covered by the fee schedule for trust activities are charged directly to the trust account on a gross basis as trust revenue is incurred. First Mid Wealth Management Company managed assets totaling $5.3 billion and $5.1 billion at December 31, 2022 and 2021, respectively.

Treasury Stock

Treasury stock is stated at cost. Cost is determined by the first-in, first-out method.

Stock Incentive Awards

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.

A maximum of 149,983 shares of common stock may be issued under the SI Plan. The Company awarded 63,150, 48,575 and 25,950 shares during 2022, 2021, and 2020, respectively as stock and stock unit awards.

Employee Stock Purchase Plan

At the Annual Meeting of Stockholders held April 25, 2018, the stockholders approved the First Mid 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 December 31, 2022, 2021, and 2020, 23,055, 11,748 and 11,037 shares, respectively were issued pursuant to the ESPP.

Leases

Effective January 1, 2019, the Company adopted ASU 2016-02, Leases (Topic 842). As of December 31, 2022 substantially all the Company's leases are operating leases for real estate property for bank branches, ATM locations, and office space. For leases in effect 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.

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 trust department. Fees are billed in arrears based upon the preceding period account balance. Revenue from the farm management department is recorded when service is complete, for example when crops are sold.

Brokerage commissions. The primary brokerage 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 are located in markets with similar economies, no disaggregation of revenue is necessary.

Adoption of New Accounting Guidance

Accounting Standards Update 2016-02, Leases (Topic 842)("ASU 2016-02"). On February 25, 2016, FASB issued ASU 2016-02 which creates Topic 842, Leases and supersedes Topic 840, Leases. ASU 2016-02 is intended to improve financial reporting about leasing transactions, by increasing transparency and comparability among organizations. Under the new guidance, a lessee is required to record all leases with lease terms of more than 12 months on their balance sheet as lease liabilities with a corresponding right-of-use asset. ASU 2016-02 maintains the dual model for lease accounting, requiring leases to be classified as either operating or finance, with lease classification determined in a manner similar to existing lease guidance. The new guidance is effective for public companies for fiscal years beginning on or after December 15, 2018, and for private companies for fiscal years beginning on or after December 15, 2019. The Company adopted the guidance effective January 1, 2019 and recorded a right of use asset of $14.1 million and a lease liability of $14.1 million.

Accounting Standards Update 2018-13, Fair Value Measurements (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement ("ASU 2018-13"). In August 2018, FASB issued ASU 2018-13. This ASU eliminates, adds, and modifies certain disclosure requirements for fair value measurements. Among the changes, an entity will no longer be required to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy but will be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. ASU 2018-13 is effective for interim and annual reporting periods beginning after December 15, 2019. As ASU 2018-13 only revised disclosure requirements, it did not have a material impact on the Company's consolidated financial statements.

Accounting Standards Update 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses of Financial Instruments ("ASU 2016-13"). In June 2016, FASB issued ASU 2016-13. The provisions of ASU 2016-13 require an entity to utilize a new impairment model known as the current expected credit loss ("CECL") model to estimate its lifetime "expected credit loss" and record an allowance that, when deducted from the amortized cost basis of the financial asset, presents the net amount expected to be collected on the financial asset. The CECL model is expected to result in more timely recognition of credit losses. ASU 2016-13 also requires new disclosures for financial assets measured at amortized cost, loans and available-for- sale debt securities. ASU 2016-13 was effective for annual periods beginning after December 15, 2019, including interim periods within those fiscal years.

Management formed an internal, cross functional committee in 2017 to evaluate implementation steps and assess the impact ASU 2016-13 would have on the Company's consolidated financial statements. The committee assigned roles and responsibilities, key tasks to complete, and established a general timeline for implementation. The Company also engaged an outside consultant to assist with the methodology review and data validation, as well as other key aspects of implementing the standard. The committee met periodically to discuss the latest developments and ensure progress was being made. In addition, the committee kept current on evolving interpretations and industry practices related to ASU 2016-13. The committee evaluated and validated data resources and different loss methodologies. Key implementation activities for 2019 included finalization of models, establishing processes and controls, development of supporting analytics and documentation, policies and disclosure, and implementing parallel processing.

The Company adopted ASU 2016-13 using the modified retrospective method for financial assets measured at amortized cost-effective January 1, 2020. Results for the periods beginning after January 1, 2020 are presented under ASU 2016-13 while prior period amounts are reported in accordance with the previously applicable accounting standards. The Company recorded a reduction to retained earnings of approximately $717,000 upon adoption of ASU 2016-13. The transition adjustment

included an increase to the allowance for credit losses on loans of $1.7 million and an increase to the allowance for credit losses on off-balance sheet credit exposure of $69,000. There was no allowance for credit losses recorded for held-to- maturity debt securities. The transition adjustment included corresponding increases in deferred tax assets.

The Company adopted ASU 2016-13 using the prospective transition approach for financial assets considered purchased credit deteriorated ("PCD") that were previously classified as purchase credit impaired ("PCI") and accounted for under ASC 310-30 effective January 1, 2020. In accordance with the standard, the Company did not reassess whether the PCI assets met the criteria of PCD assets as of the adoption date. The amortized cost of the PCD assets were adjusted to reflect the addition of $833,000 to the allowance for credit losses. The remaining noncredit discount (based on the adjusted amortized cost) will be accreted into interest income at the effective interest rate over the remaining life of the assets.

The following table illustrates the impact of ASU 2016-13 adoption (in thousands):

	January 1, 2020		
	As reported under ASU 2016-13	**Pre-ASU 2016-13 Adoption**	**Impact of ASU 2016-13 Adoption**
Assets:			
Construction and Land Development	$ 1,033	$ 1,146	$ (113)
Farm	1,323	1,093	230
1-4 Family Residential Properties	2,142	1,386	756
Commercial Real Estate	11,739	11,198	541
Agricultural	1,023	1,386	(363)
Commercial and Industrial	9,428	9,273	155
Consumer	1,895	1,429	466
Allowance for credit losses for all loans	$ 28,583	$ 26,911	$ 1,672
Liabilities:			
Allowance for credit losses on off-balance sheet exposures	$ 69	—	$ 69

The following table illustrates the impact of ASU 2016-13 adoption for PCD assets previously classified as PCI included in the table above (in thousands):

	January 1, 2020		
	As reported under ASU 2016-13	**Pre-ASU 2016-13 Adoption**	**Impact of ASU 2016-13 Adoption**
Construction and Land Development	$ 291	$ —	$ 291
1-4 Family Residential Properties	48	6	42
Commercial Real Estate	818	359	459
Commercial and Industrial	41	—	41
Allowance for credit losses for all loans	$ 1,198	$ 365	$ 833

Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive loss included in stockholders' equity as of December 31, 2022 and 2021 are as follows (in thousands):

	Unrealized Gain (Loss) on Securities
December 31, 2022	
Net unrealized losses on securities available-for-sale	$ (213,387)
Tax benefit	61,880
Balance at December 31, 2022	$ (151,507)
December 31, 2021	
Net unrealized losses on securities available-for-sale	$ (1,170)
Tax benefit	339
Balance at December 31, 2021	$ (831)

Amounts reclassified from accumulated other comprehensive loss and the affected line items in the statements of income during the years ended December 31, 2022, 2021, and 2020, were as follows (in thousands):

	Amounts Reclassified from Other Comprehensive Income			Affected Line Item in the Statements of Income
	2022	2021	2020	
Realized gains on available-for-sale securities	$ 33	$ 124	$ 1,106	Securities gains, net (total reclassified amount before tax)
	(10)	(36)	(321)	Tax expense
Total reclassifications out of accumulated other comprehensive income	$ 23	$ 88	$ 785	Net reclassified amount

See "Note 4 – Investment Securities" for more detailed information regarding unrealized losses on available-for-sale securities.

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 assumed conversion of the Company's convertible preferred stock and the Company's stock options and restricted stock awarded, unless anti-dilutive.

The components of basic and diluted net income per common share available to common stockholders for the years ended December 31, 2022, 2021, and 2020 were as follows:

	2022	2021	2020
Basic net income per common share available to common stockholders:			
Net income available to common stockholders	72,952,000	51,490,000	45,270,000
Weighted average common shares outstanding	20,169,077	17,886,998	16,716,880
Basic earnings per common share	$ 3.62	$ 2.88	$ 2.71
Diluted net income per common share available to common stockholders:			
Net income available to common stockholders	$ 72,952,000	$ 51,490,000	$ 45,270,000
Weighted average common shares outstanding	20,169,077	17,886,998	16,716,880
Dilutive potential common shares:			
Restricted stock awarded	74,558	52,009	45,976
Dilutive potential common shares	74,558	52,009	45,976
Diluted weighted average common shares outstanding	20,243,635	17,939,007	16,762,856
Diluted earnings per common share	$ 3.60	$ 2.87	$ 2.70

There were no shares not considered in computing diluted earnings per share for the years ended December 31, 2022, 2021, and 2020.

Note 3 -- Cash and Due from Banks

At December 31, 2022, the Company's cash accounts exceeded federal insurance limits by $35.9 million. There have been no losses on these accounts.

Note 4 -- 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 December 31, 2022 and 2021 were as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
December 31, 2022				
Available-for-sale:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 252,934	$ —	$ (32,407)	$ 220,527
Obligations of states and political subdivisions	347,409	134	(59,845)	287,698
Mortgage-backed securities: GSE residential	744,636	3	(116,759)	627,880
Other securities	87,393	6	(4,519)	82,880
Total available-for-sale	$ 1,432,372	$ 143	$ (213,530)	$ 1,218,985
Held-to-maturity:				
Other securities	$ 2,954	$ —	$ —	$ 2,954
Total held-to-maturity	$ 2,954	$ —	$ —	$ 2,954
December 31, 2021				
Available-for-sale:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 208,598	$ 80	$ (4,863)	$ 203,815
Obligations of states and political subdivisions	383,991	12,123	(657)	395,457
Mortgage-backed securities: GSE residential	799,456	4,292	(12,710)	791,038
Other securities	30,546	671	(105)	31,112
Total available-for-sale	$ 1,422,591	$ 17,166	$ (18,335)	$ 1,421,422
Held-to-maturity:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 5,001	$ 5	$ —	$ 5,006
Other securities	2,029	—	—	2,029
Total held-to-maturity	$ 7,030	$ 5	$ —	$ 7,035

The Company also had $311,000 and $397,000 of equity securities, at fair value, as of December 31, 2022 and 2021, respectively. All the Company's held-to-maturity securities are government agency-backed securities for which the risk of loss is minimal. As such, as of December 31, 2022, the Company did not record an allowance for credit losses on its held-to-maturity securities.

Proceeds from sales of available-for-sale investment securities, realized gains and losses and income tax expense were as follows during the years ended December 31, 2022, 2021, and 2020 (in thousands):

	2022	2021	2020
Proceeds from sales	$ 36,257	$ 611	$ 9,061
Gross gains	202	124	1,132
Gross losses	(169)	—	(26)
Income tax expense	(10)	36	321

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 December 31, 2022 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	$ 161,688	$ 49,187	$ 9,652	$ —	$ 220,527
Obligations of state and political subdivisions	19,446	76,847	190,232	1,173	287,698
Mortgage-backed securities: GSE residential	4,762	97,333	524,164	1,621	627,880
Other securities	20,636	60,533	1,711	—	82,880
Total available-for-sale	$ 206,532	$ 283,900	$ 725,759	$ 2,794	$ 1,218,985
Weighted average yield	1.56%	2.44%	1.75%	2.92%	1.87%
Full tax equivalent yield	1.66%	2.70%	1.92%	3.44%	2.05%
Held-to-maturity:					
Other securities	$ —	$ —	$ —	$ 2,954	$ 2,954
Total held-to-maturity	$ —	$ —	$ —	$ 2,954	$ 2,954
Weighted average yield	—%	—%	—%	—%	—%
Full tax equivalent yield	—%	—%	—%	—%	—%

The weighted average yields are calculated on the basis of 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 December 31, 2022. Investment securities carried at approximately $770 million and $590 million at December 31, 2022 and 2021, 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 December 31, 2022 and 2021 (in thousands):

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2022						
Available-for-sale:						
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 57,007	$ (3,493)	$ 163,520	$ (28,914)	$ 220,527	$ (32,407)
Obligations of states and political subdivisions	220,102	(43,221)	45,419	(16,624)	265,521	(59,845)
Mortgage-backed securities: GSE residential	165,966	(19,859)	461,446	(96,900)	627,412	(116,759)
Other securities	64,676	(3,675)	6,698	(844)	71,374	(4,519)
Total	$ 507,751	$ (70,248)	$ 677,083	$ (143,282)	$ 1,184,834	$ (213,530)
December 31, 2021						
Available-for-sale:						
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 48,316	$ (1,927)	$ 139,846	$ (2,936)	$ 188,162	$ (4,863)
Obligations of states and political subdivisions	61,535	(657)	—	—	61,535	(657)
Mortgage-backed securities: GSE residential	562,699	(11,019)	46,504	(1,691)	609,203	(12,710)
Other securities	7,976	(105)	—	—	7,976	(105)
Total	$ 680,526	$ (13,708)	$ 186,350	$ (4,627)	$ 866,876	$ (18,335)

U.S. Treasury Securities and Obligations of U.S. Government Corporations and Agencies. At December 31, 2022, there were sixteen available-for-sale U.S. Treasury securities and obligations of U.S. government corporations and agencies with a fair value of $163.5 million and unrealized losses of $28.9 million in a continuous unrealized loss position for twelve months or more. At December 31, 2021, there were six available-for-sale securities with a fair value of $139.8 million and unrealized losses of $2.9 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 at December 31, 2022 or 2021.

Obligations of states and political subdivisions. At December 31, 2022 there were thirty-six obligations of states and political subdivisions with fair value of $45.4 million and unrealized losses of $16.6 million in a continuous unrealized loss position for twelve months or more. At December 31, 2021, there were no obligations of states and political subdivisions in a continuous unrealized loss position for twelve months or more.

Mortgage-backed Securities: GSE Residential. At December 31, 2022 there were ninety-one mortgage-backed securities with a fair value of $461.4 million and unrealized losses of $96.9 million in a continuous unrealized loss position for twelve months or more. At December 31, 2021, there were fifteen mortgage-backed security with a fair value of $46.5 million and unrealized losses of $1.7 million in a continuous unrealized loss position for twelve months or more.

Other securities. At December 31, 2022 there were five other securities with fair value of $6.7 million and unrealized losses of $0.8 million in a continuous unrealized loss position for twelve months or more. At December 31, 2021 there were no other securities in a continuous unrealized loss position for twelve months or more.

Maturities of investment securities were as follows at December 31, 2022 (in thousands):

	Amortized Cost	Estimated Fair Value
Available-for-sale:		
Due in one year or less	$ 228,998	$ 201,770
Due after one-five years	203,048	186,567
Due after five-ten years	254,473	201,595
Due after ten years	1,217	1,173
	687,736	591,105
Mortgage-backed securities: GSE residential	744,636	627,880
Total available-for-sale	$ 1,432,372	$ 1,218,985
Held-to-maturity:		
Due in one year or less	$ —	$ —
Due after ten years	2,954	2,954
Total held-to-maturity	$ 2,954	$ 2,954

Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Note 5 -- Loans and Allowance for Credit Losses

Loans are stated at the principal amount outstanding net of unearned discounts, unearned income, and allowance for credit losses. Unearned income includes deferred loan origination fees reduced by loan origination costs and is 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 December 31, 2022 and 2021 follows (in thousands):

	2022	2021
Construction and land development	$ 144,387	$ 145,156
Agricultural real estate	410,790	279,001
1-4 family residential properties	440,018	399,932
Multifamily residential properties	295,073	298,974
Commercial real estate	2,036,243	1,666,764
Loans secured by real estate	3,326,511	2,789,827
Agricultural loans	166,695	151,344
Commercial and industrial loans	1,085,004	834,061
Consumer loans	97,730	78,538
All other loans	159,499	143,738
Gross loans	4,835,439	3,997,508
Less: Loans held for sale	338	2,748
	4,835,101	3,994,760
Less:		
Net deferred loan fees, premiums and discounts	9,227	1,985
Allowance for credit losses	59,093	54,655
Net loans	$ 4,766,781	$ 3,938,120

Net loans increased $828.7 million as of December 31, 2022 compared to December 31, 2021. Of this increase, approximately $426.4 million were loans acquired from Jefferson Bank. Loans expected to be sold are classified as held for sale in the consolidated financial statements and are recorded at the lower of aggregate cost or 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 $23.0 million and $14.7 million at December 31, 2022 and 2021, respectively.

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. The vast majority 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 years. The Company's commercial real estate portfolio is well below the thresholds that would designate a concentration in commercial real estate lending, as established by the federal banking regulators.

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 the vast majority 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. The Company retains all residential real estate loans with balloon payment features. Balloon periods are limited to five years. 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 troubled debt restructurings, 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, impaired loans separately from non-impaired 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 troubled debt restructurings. 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.

Beginning January 1, 2020, the allowance for credit losses was estimated using the current expected credit loss model ("CECL"). The Company uses the Loss Rate method to estimate the historical loss rate for all non-individually evaluated loans. Under this method, the allowance for credit losses is measured on a collective (pool) basis for loans with similar risk characteristics. Historical credit loss experience provides the basis for the estimate of expected credit losses. For each pool, a historical loss rate is computed based on the average remaining contractual life of the pool. Adjustments to historical loss rates are made using qualitative factors relevant to each pool including merger & acquisition activity, economic conditions, changes in policies, procedures & underwriting, and concentrations. In addition, a twelve-month 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. In March 2020, in response to the COVID-19 outbreak, its significant disruptions in the U.S. economy and impacts on local markets, First Mid Bank offered a 90-day commercial deferral program, primarily to hotel and restaurant borrowers. In accordance with interagency guidance issued in March 2020, these short-term deferrals are not considered troubled debt restructurings. These deferrals were, however, considered in the factors used to estimate the required allowance for credit losses for non-impaired loans. Other COVID-19 related impacts considered included revenue losses of businesses required to restrict or cease services, income loss to workers laid off as a result of COVID-19 restrictions, various federal and state government stimulus programs and additional deferral programs offered by First Mid Bank beginning in April 2020. Other 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.

During 2022, 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 and adversely classifieds in this segment remained very low. Past dues also remained low and stable compared to last year. Given the increasing uncertainty regarding the potential for a recession, the qualitative factor for this segment was increased slightly.

Agricultural Real Estate Loans. Historical losses in the segment remain very low. Adversely classified balances and past dues improved in 2022. Farmland values have remained steady over an extended period of time and there are no indications that this will change in the next year. There was a slight decrease to the qualitative factor for this segment.

1- 4 Family Residential Properties Loans. This loan segment has remained stable throughout the last several years even with the uncertainty created from COVID 19 and the subsequent governmental actions to provide support. Both adversely classifieds and past dues improved during the year. The qualitative factors on both non-owner occupied and owner-occupied loans for this segment have not changed.

Commercial Real Estate Loans. This is the largest segment of loans in the portfolio and carries the largest balance of allowance for credit losses. For 2022, adversely classified balances and past dues improved. However, the economic uncertainty increased and drove the qualitative factors on both non-owner occupied and owner-occupied loans to be increased slightly.

Agricultural Loans. Losses in this segment are very low. Adversely classified balances and past dues decreased. Commodity prices have been elevated and yields have been strong. The qualitative factor of this segment was decreased slightly.

Commercial and Industrial Loans. This segment carries the second largest balance of allowance for credit losses for the Company. During the year, adversely classified balances increased, while past dues decreased. Due to the increase in the adversely classifieds and the increased economic uncertainty, the qualitative factor for this segment was increased slightly.

Consumer Loans. This segment represents the smallest portion of the Company's loan portfolio. During the year, adversely classified loans decreased, while past dues increased. Due to the increase in past due and the increased economic uncertainty, the qualitative factor for this segment was increased slightly.

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. All loans considered to be PCI prior to January 1, 2020 were converted to PCD on that date. Accordingly, on January 1, 2020, the amortized cost basis of the PCD loans were adjusted to reflect the addition of $833,000 to the allowance for credit losses.

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 tables present the balance in the allowance for credit losses and the recorded investment in loans based on portfolio segment and impairment method as of December 31, 2022, 2021, and 2020 (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
Twelve months ended December 31, 2022								
Beginning Balance	$ 1,743	$ 1,257	$ 2,330	$ 26,246	$ 983	$ 19,241	$ 2,855	$ 54,655
Initial allowance on loans purchased with credit deterioration	272	—	3	478	—	94	16	863
Provision for credit loss expense	137	176	1,241	1,462	(359)	2,135	14	4,806
Loans charged off	2	—	191	414	93	870	1,380	2,950
Recoveries collected	100	—	359	385	54	208	613	1,719
Ending balance	$ 2,250	$ 1,433	$ 3,742	$ 28,157	$ 585	$ 20,808	$ 2,118	$ 59,093
Twelve months ended December 31, 2021								
Beginning Balance	$ 1,666	$ 1,084	$ 2,322	$ 19,660	$ 1,526	$ 13,485	$ 2,167	$ 41,910
Initial allowance on loans purchased with credit deterioration	261	44	328	646	—	795	—	2,074
Provision for credit loss expense	21	129	(160)	6,415	(544)	7,940	1,350	15,151
Loans charged off	205	—	371	535	—	3,118	1,405	5,634
Recoveries collected	—	—	211	60	1	139	743	1,154
Ending balance	$ 1,743	$ 1,257	$ 2,330	$ 26,246	$ 983	$ 19,241	$ 2,855	$ 54,655
Twelve months ended December 31, 2020								
Beginning Balance (prior to adoption of ASC 326)	$ 1,146	$ 1,093	$ 1,386	$ 11,198	$ 1,386	$ 9,273	$ 1,429	$ 26,911
Impact of adopting ASC 326	(113)	230	756	541	(363)	155	466	1,672
Provision for credit loss expense	646	(239)	274	8,581	503	5,869	469	16,103
Loans charged off	13	—	393	829	—	1,991	618	3,844
Recoveries collected	—	—	299	169	—	179	421	1,068
Ending balance	$ 1,666	$ 1,084	$ 2,322	$ 19,660	$ 1,526	$ 13,485	$ 2,167	$ 41,910

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 impaired 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 December 31, 2022 (in thousands):

	Collateral				Allowance for Credit Losses
	Real Estate	Business Assets	Other	Total	
Construction and land development	$ 449	$ —	$ —	$ 449	$ 221
Agricultural real estate	—	—	16	16	—
1-4 family residential properties	1,085	144	—	1,229	58
Multifamily residential properties	660	—	—	660	—
Commercial real estate	8,442	647	—	9,089	459
Loans secured by real estate	10,636	791	16	11,443	738
Agricultural loans	—	—	—	—	—
Commercial and industrial loans	196	349	—	545	—
Consumer loans	—	—	1	1	—
All other loans	—	—	—	—	—
Total loans	$ 10,832	$ 1,140	$ 17	$ 11,989	$ 738

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, on the basis of 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 based on rating category and payment activity as of December 31, 2022 (in thousands):

	Term Loans by Origination Year						Revolving	
Risk rating	**2022**	**2021**	**2020**	**2019**	**2018**	**Prior**	**Loans**	**Total**
December 31, 2022								
Construction and land development loans								
Pass	$ 63,846	$ 39,790	$ 12,558	$ 15,787	$ 1,210	$ 10,601	$ —	$ 143,792
Special mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	14	—	458	—	472
Total	$ 63,846	$ 39,790	$ 12,558	$ 15,801	$ 1,210	$ 11,059	$ —	$ 144,264
Agricultural real estate loans								
Pass	$ 171,833	$ 67,115	$ 58,283	$ 23,820	$ 27,573	$ 52,799	$ —	$ 401,423
Special mention	1,123	—	490	1,240	273	3,121	—	6,247
Substandard	—	—	—	—	1,383	1,274	—	2,657
Total	$ 172,956	$ 67,115	$ 58,773	$ 25,060	$ 29,229	$ 57,194	$ —	$ 410,327
1-4 family residential property loans								
Pass	$ 94,377	$ 86,717	$ 78,977	$ 27,580	$ 30,809	$ 63,050	$ 43,722	$ 425,232
Special mention	169	218	1	44	238	1,000	—	1,670
Substandard	1,060	566	529	295	2,749	8,079	—	13,278
Total	$ 95,606	$ 87,501	$ 79,507	$ 27,919	$ 33,796	$ 72,129	$ 43,722	$ 440,180
Commercial real estate loans								
Pass	$ 558,921	$ 509,614	$ 319,049	$ 239,564	$ 211,505	$ 453,076	$ —	$ 2,291,729
Special mention	2,187	1,287	769	1,508	952	8,503	—	15,206
Substandard	3,783	478	794	873	5,394	6,100	—	17,422
Total	$ 564,891	$ 511,379	$ 320,612	$ 241,945	$ 217,851	$ 467,679	$ —	$ 2,324,357
Agricultural loans								
Pass	$ 137,327	$ 18,783	$ 3,433	$ 3,918	$ 915	$ 254	$ —	$ 164,630
Special mention	1,178	—	—	756	66	109	—	2,109
Substandard	53	—	—	46	—	—	—	99
Total	$ 138,558	$ 18,783	$ 3,433	$ 4,720	$ 981	$ 363	$ —	$ 166,838
Commercial and industrial loans								
Pass	$ 450,001	$ 226,038	$ 172,208	$ 63,906	$ 61,929	$ 247,404	$ —	$ 1,221,486
Special mention	469	640	10,095	570	7,280	158	—	19,212
Substandard	346	418	184	35	157	633	—	1,773
Total	$ 450,816	$ 227,096	$ 182,487	$ 64,511	$ 69,366	$ 248,195	$ —	$ 1,242,471
Consumer loans								
Pass	$ 48,600	$ 21,088	$ 12,101	$ 7,968	$ 1,945	$ 5,630	$ —	$ 97,332
Special mention	—	18	1	—	5	—	—	24
Substandard	69	246	3	43	52	6	—	419
Total	$ 48,669	$ 21,352	$ 12,105	$ 8,011	$ 2,002	$ 5,636	$ —	$ 97,775
Total loans								
Pass	$ 1,524,905	$ 969,145	$ 656,609	$ 382,543	$ 335,886	$ 832,814	$ 43,722	$ 4,745,624
Special mention	5,126	2,163	11,356	4,118	8,814	12,891	—	44,468
Substandard	5,311	1,708	1,510	1,306	9,735	16,550	—	36,120
Total	$ 1,535,342	$ 973,016	$ 669,475	$ 387,967	$ 354,435	$ 862,255	$ 43,722	$ 4,826,212

Risk rating	Term Loans by Origination Year 2021	2020	2019	2018	2017	Prior	Revolving Loans	Total
December 31, 2021								
Construction and land development loans								
Pass	$ 38,656	$ 34,774	$ 23,505	$ 34,358	$ 3,760	$ 9,433	$ —	$ 144,486
Special mention	110	—	—	—	—	—	—	110
Substandard	—	—	—	483	—	39	—	522
Total	$ 38,766	$ 34,774	$ 23,505	$ 34,841	$ 3,760	$ 9,472	$ —	$ 145,118
Agricultural real estate loans								
Pass	$ 78,793	$ 64,159	$ 25,713	$ 30,203	$ 12,142	$ 54,808	$ —	$ 265,818
Special mention	872	259	4,028	384	69	6,087	—	11,699
Substandard	—	—	392	187	57	1,119	—	1,755
Total	$ 79,665	$ 64,418	$ 30,133	$ 30,774	$ 12,268	$ 62,014	$ —	$ 279,272
1-4 family residential property loans								
Pass	$ 78,889	$ 94,404	$ 35,554	$ 44,248	$ 30,735	$ 52,131	$ 42,800	$ 378,761
Special mention	234	—	1,934	499	2,601	1,196	41	6,505
Substandard	355	496	1,534	1,302	3,458	7,250	652	15,047
Total	$ 79,478	$ 94,900	$ 39,022	$ 46,049	$ 36,794	$ 60,577	$ 43,493	$ 400,313
Commercial real estate loans								
Pass	$ 568,200	$ 417,334	$ 299,973	$ 174,448	$ 150,811	$ 304,585	$ —	$ 1,915,351
Special mention	3,185	1,206	1,836	1,295	10,609	8,632	—	26,763
Substandard	2,007	714	6,242	1,179	4,646	8,238	—	23,026
Total	$ 573,392	$ 419,254	$ 308,051	$ 176,922	$ 166,066	$ 321,455	$ —	$ 1,965,140
Agricultural loans								
Pass	$ 105,378	$ 17,903	$ 5,612	$ 2,822	$ 924	$ 1,316	$ —	$ 133,955
Special mention	13,725	436	2,648	150	13	64	—	17,036
Substandard	350	18	—	—	—	125	—	493
Total	$ 119,453	$ 18,357	$ 8,260	$ 2,972	$ 937	$ 1,505	$ —	$ 151,484
Commercial and industrial loans								
Pass	$ 279,814	$ 167,662	$ 119,702	$ 76,022	$ 22,888	$ 302,962	$ —	$ 969,050
Special mention	613	399	1,463	182	477	819	—	3,953
Substandard	506	34	133	621	24	1,433	—	2,751
Total	$ 280,933	$ 168,095	$ 121,298	$ 76,825	$ 23,389	$ 305,214	$ —	$ 975,754
Consumer loans								
Pass	$ 27,948	$ 19,033	$ 16,978	$ 5,505	$ 4,297	$ 1,244	$ —	$ 75,005
Special mention	68	54	38	9	—	—	—	169
Substandard	585	58	308	678	43	1,596	—	3,268
Total	$ 28,601	$ 19,145	$ 17,324	$ 6,192	$ 4,340	$ 2,840	$ —	$ 78,442
Total loans								
Pass	$ 1,177,678	$ 815,269	$ 527,037	$ 367,606	$ 225,557	$ 726,479	$ 42,800	$ 3,882,426
Special mention	18,807	2,354	11,947	2,519	13,769	16,798	41	66,235
Substandard	3,803	1,320	8,609	4,450	8,228	19,800	652	46,862
Total	$ 1,200,288	$ 818,943	$ 547,593	$ 374,575	$ 247,554	$ 763,077	$ 43,493	$ 3,995,523

The following table presents the Company's loan portfolio aging analysis at December 31, 2022 and 2021 (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
December 31, 2022							
Construction and land development	$ 20	$ 14	$ 449	$ 483	$ 143,781	$ 144,264	$ —
Agricultural real estate	20	6	1	27	410,300	410,327	—
1-4 family residential properties	1,706	1,092	896	3,694	436,486	440,180	—
Multifamily residential properties	—	—	548	548	293,798	294,346	—
Commercial real estate	494	205	3,654	4,353	2,025,658	2,030,011	—
Loans secured by real estate	2,240	1,317	5,548	9,105	3,310,023	3,319,128	—
Agricultural loans	—	53	29	82	166,756	166,838	—
Commercial and industrial loans	716	24	854	1,594	1,081,366	1,082,960	—
Consumer loans	326	195	278	799	96,976	97,775	—
All other loans	—	—	—	—	159,511	159,511	—
Total loans	$ 3,282	$ 1,589	$ 6,709	$ 11,580	$ 4,814,632	$ 4,826,212	$ —
December 31, 2021							
Construction and land development	$ 159	$ 199	$ 203	$ 561	$ 144,557	$ 145,118	$ —
Agricultural real estate	—	222	1	223	279,049	279,272	—
1-4 family residential properties	2,532	914	2,012	5,458	394,855	400,313	—
Multifamily residential properties	—	—	1,676	1,676	297,266	298,942	—
Commercial real estate	8,930	640	2,484	12,054	1,654,144	1,666,198	—
Loans secured by real estate	11,621	1,975	6,376	19,972	2,769,871	2,789,843	—
Agricultural loans	—	10	588	598	150,886	151,484	—
Commercial and industrial loans	381	302	1,156	1,839	830,169	832,008	—
Consumer loans	388	47	118	553	77,889	78,442	—
All other loans	1,854	—	—	1,854	141,892	143,746	—
Total loans	$ 14,244	$ 2,334	$ 8,238	$ 24,816	$ 3,970,707	$ 3,995,523	$ —

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 troubled debt restructured loans, are placed on nonaccrual status. Impaired loans include nonaccrual loans and loans modified in troubled debt restructurings 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 troubled debt restructurings 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 troubled debt restructurings that remain on accrual status.

Nonaccrual Loans

The following table presents the Company's recorded balance of nonaccrual loans at December 31, 2022 and December 31, 2021 (in thousands). This table excludes performing purchased credit deteriorated loans and performing troubled debt restructurings.

	2022		2021	
	Nonaccrual with no Allowance for Credit Loss	Nonaccrual	Nonaccrual with no Allowance for Credit Loss	Nonaccrual
Construction and land development	$ 14	$ 14	$ 25	$ 25
Agricultural real estate	1,258	1,258	237	336
1-4 family residential properties	4,532	4,943	5,252	5,252
Multifamily residential properties	672	672	1,982	1,982
Commercial real estate	7,640	7,640	7,554	7,920
Loans secured by real estate	14,116	14,527	15,050	15,515
Agricultural loans	57	57	560	560
Commercial and industrial loans	1,098	1,098	936	1,851
Consumer loans	274	274	179	179
Total loans	$ 15,545	$ 15,956	$ 16,725	$ 18,105

The aggregate principal balances of nonaccrual, past due ninety days or more loans were $16.0 million and $18.1 million at December 31, 2022 and 2021, respectively. Interest income that would have been recorded under the original terms of such nonaccrual loans totaled $103,000, $308,000 and $921,000 in 2022, 2021, and 2020, respectively.

Subsequent to adoption of ASU 2016-13 on January 1, 2020, loans acquired in a business combination that have experienced more-than-insignificant deterioration in credit quality since origination are considered 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. All loans considered to be PCI prior to January 1, 2020 were converted to PCD on that date.

Troubled Debt Restructuring

The balance of troubled debt restructurings ("TDRs") at December 31, 2022 and 2021 was $5.1 million and $5.8 million, respectively. Approximately $0.5 million and $0.8 million in specific reserves were established with respect to these loans as of December 31, 2022 and 2021, respectively. As troubled debt restructurings, these loans are included in nonperforming loans and are classified as impaired which requires that they be individually measured for impairment. The modification of the terms of these loans included one or a combination of the following: a reduction of stated interest rate of the loan; an extension of the maturity date and change in payment terms; or a permanent reduction of the recorded investment in the loan. There was no significant change between pre- and post-modification balances.

The following table presents the Company's recorded balance of troubled debt restructurings at December 31, 2022 and 2021 (in thousands).

	2022	2021
Troubled debt restructurings:		
Agricultural real estate	$ 351	$ 245
1-4 family residential properties	1,165	1,353
Commercial real estate	2,919	3,355
Loans secured by real estate	4,435	4,953
Agricultural loans	—	228
Commercial and industrial loans	591	479
Consumer loans	38	109
All other loans	—	23
Total	$ 5,064	$ 5,792
Performing troubled debt restructurings:		
Agricultural real estate	$ 233	$ 245
1-4 family residential properties	846	882
Commercial real estate	1,939	2,552
Loans secured by real estate	3,018	3,679
Commercial and industrial loans	159	179
Consumer loans	37	50
All other loans	—	23
Total	$ 3,214	$ 3,931

The following table presents loans modified as TDRs during the years ended December 31, 2022 and 2021 as a result of various modified loan factors (dollars in thousands). The change in the recorded investment from pre-modification to post-modification was not material.

	December 31, 2022		December 31, 2021	
	Number of Modifications	Recorded Investment	Number of Modifications	Recorded Investment
Agricultural real estate	2	$ 97	1	$ 245
1-4 family residential properties	4	422	1	183
Commercial real estate	2	196	1	679
Loans secured by real estate	8	715	3	1,107
Commercial and industrial loans	4	325	2	254
Consumer loans	—	—	4	50
All other loans	—	—	1	23
Total	12	$ 1,040	10	$ 1,434

A loan is considered to be in payment default once it is ninety days past due under the modified terms. There was two loans modified as troubled debt restructurings during the prior twelve months that experienced defaults for years ended December 31, 2022 There was one loan modified as troubled debt restructuring during 2021.

At December 31, 2022 and 2021, the balance of real estate owned include $4.3 million and $5.0 million respectively of foreclosed real estate properties recorded as a result of obtaining physical possession of the property. At December 31, 2022 and 2021, the recorded investment of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceeds were in process was $425,000 and $411,000.

Purchased Credit Deteriorated (PCD) Loans

During 2022 and 2021, the Company acquired loans from Delta and LINCO, respectively, for which there was, at acquisition, evidence of more than insignificant deterioration of credit quality since origination. The carrying amount of those loans is as follows (in thousands):

	Delta Acquisition	LINCO Acquisition
Purchase price of purchase credit deteriorated loans at acquisition	$ 18,796	$ 64,647
Allowance for credit losses at acquisition	(863)	(2,074)
Non-credit discount/(premium) at acquisition	(523)	(187)
Fair value of purchased credit deteriorated loans at acquisition	$ 17,410	$ 62,386

Note 6 -- Premises and Equipment, Net

Premises and equipment at December 31, 2022 and 2021 consisted of (in thousands):

	2022	2021
Land	$ 27,982	$ 22,682
Buildings and improvements	68,345	67,225
Furniture and equipment	25,498	25,747
Leasehold improvements	4,676	4,736
Construction in progress	1,538	394
Subtotal	128,039	120,784
Accumulated depreciation and amortization	37,566	39,300
Total	$ 90,473	$ 81,484

Depreciation and amortization expense was $4.9 million, $4.4 million, and $3.8 million for the years ended December 31, 2022, 2021, and 2020, respectively.

Note 7 -- 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 business lines acquired. The following table presents gross carrying amount and accumulated amortization by major intangible asset class as of December 31, 2022 and 2021 (in thousands):

	2022		2021	
	Gross Carrying Value	Accumulated Amortization	Gross Carrying Value	Accumulated Amortization
Goodwill	$ 144,172	$ 3,760	$ 115,613	$ 3,760
Intangibles from branch acquisition	3,015	3,015	3,015	3,015
Core deposit intangibles	45,355	28,432	39,435	24,085
Customer list intangibles	20,782	8,551	20,561	6,808
	$ 213,324	$ 43,758	$ 178,624	$ 37,668

Goodwill of $28.6 million was recorded for the acquisition and merger of Delta Bancshares Company during the first quarter of 2022. All this goodwill was assigned to the banking unit of the Company.

During the second quarter of 2021, goodwill of $1.4 million was recorded for the acquisition of certain assets used by BBM & Associates Inc., in connection with its trucking insurance business. All this goodwill was assigned to First Mid Insurance.

Goodwill of $8.9 million was provisionally recorded for the acquisition and merger of LINCO Bancshares, Inc. ("LINCO") during the first quarter of 2021. All this goodwill was assigned to the banking segment of the Company. This goodwill was subsequently adjusted to $5.4 million to reflect adjustments made to finalize the purchase accounting.

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

Unallocated purchase price		$ 29,791
Less purchase accounting adjustments:		
Fair value of securities	(2,836)	
Fair value of loans, net	(3,399)	
Fair value of premises and equipment	3,508	
Fair value of time deposits	(1,759)	
Fair value of FHLB advances	(75)	
Core deposit intangible	5,920	
Other assets	(570)	
Other liabilities	444	
		1,233
Resulting goodwill from acquisition		$ 28,558

The unpaid principal balance of mortgage loans serviced for others was $73.6 million and $90.2 million at December 31, 2022 and 2021, respectively. The following table summarizes the activity pertaining to the mortgage servicing rights included in intangible assets as of December 31, 2022 and 2021 (in thousands):

	December 31, 2022	December 31, 2021
Beginning balance	$ 420	$ 516
Valuation recovery	108	544
Mortgage servicing rights amortized	(200)	(629)
I/O strip	3	(11)
Ending balance	$ 331	$ 420

Total amortization expense for the years ended December 31, 2022, 2021, and 2020 was as follows (in thousands):

	2022	2021	2020
Core deposit intangibles	$ 4,347	$ 3,176	$ 3,164
Customer list intangibles	1,743	1,586	1,305
Mortgage servicing rights	200	629	593
	$ 6,290	$ 5,391	$ 5,062

Estimated amortization expense for each of the five succeeding years is shown in the table below (in thousands):

For year ended 12/31/23	$ 5,878
For year ended 12/31/24	5,371
For year ended 12/31/25	4,736
For year ended 12/31/26	3,835
For year ended 12/31/27	3,254

In accordance with the provisions of SFAS 142 "Goodwill and Other Intangible Assets," codified in ASC 350, the Company performed testing of goodwill for impairment as of September 30, 2022 and 2021, and determined, as of each of these dates, that goodwill was not impaired. Management also concluded that the remaining amounts and amortization periods were appropriate for all intangible assets. The weighted average amortization period for core deposit, customer lists and total intangibles was 3.23, 4.12 and 3.60 respectively, at December 31, 2022.

Note 8 – Deposits

As of December 31, 2022 and 2021, deposits consisted of the following (in thousands):

	2022	2021
Demand deposits:		
Non-interest bearing	$ 1,256,514	$ 1,246,673
Interest-bearing	1,389,283	1,452,765
Savings	636,699	626,523
Money market	1,267,726	1,068,473
Time deposits	706,779	562,052
Total deposits	$ 5,257,001	$ 4,956,486

Total interest expense on deposits for the years ended December 31, 2022, 2021, and 2020 was as follows (in thousands):

	2022	2021	2020
Interest-bearing demand	$ 4,315	$ 1,547	$ 1,462
Savings	570	487	426
Money market	9,394	2,711	2,270
Time deposits	4,534	4,292	8,593
Total	$ 18,813	$ 9,037	$ 12,751

As of December 31, 2022, 2021, and 2020, the aggregate amount of time deposits in denominations of more than $250,000 was as follows (in thousands):

	2022	2021	2020
Time deposit balances in denominations of more than $250,000	$ 138,056	$ 117,887	$ 98,277

The following table shows the amount of maturities for all time deposits as of December 31, 2022 (in thousands):

Less than 1 year	$ 409,987
1 year to 2 years	200,771
2 years to 3 years	32,568
3 years to 4 years	15,970
4 years to 5 years	47,126
Over 5 years	357
Total	$ 706,779

In 2022 the Company maintained account relationships with various public entities throughout its market areas. These public entities had total balances of approximately $319.4 million and $291.4 million in various checking accounts and time deposits as of December 31, 2022 and 2021, respectively. These balances are subject to change depending upon the cash flow needs of the public entity.

Note 9 -- Repurchase Agreements and Other Borrowings

As of December 31, 2022 and 2021 borrowings consisted of the following (in thousands):

	2022	2021
Securities sold under agreements to repurchase	$ 221,414	$ 146,268
Federal Home Loan Bank-overnight	65,000	—
Federal Home Loan Bank (FHLB) fixed-term advances	400,071	86,446
Subordinated debt	94,553	94,400
Junior subordinated debentures	19,364	19,195
Total	$ 800,402	$ 346,309

Aggregate annual maturities of FHLB advances and debt (excluding unamortized discounts and premiums) at December 31, 2022 are (in thousands):

	FHLB	Subordinated Debt	Jr. Subordinated Debentures
2023	$ 175,000	$ —	$ —
2024	60,000	—	—
2025	9,747	—	4,124
2026	150,000	—	—
2027	—	—	—
Thereafter	70,000	96,000	16,496
	464,747	96,000	20,620
Unamortized discount	324	(1,447)	(1,256)
	$ 465,071	$ 94,553	$ 19,364

FHLB advances represent borrowings by First Mid Bank to fund loan demand. At December 31, 2022 the advances totaling $464.7 million were as follows:

Advance	Term (in years)	Interest Rate	Maturity Date
$5,000,000	8.0	2.40%	January 9, 2023
35,000,000	0.5	4.22%	March 31, 2023
5,000,000	4.0	2.44%	May 30, 2023
5,000,000	1.0	2.00%	May 31, 2023
25,000,000	0.75	4.34%	June 30, 2023
5,000,000	3.5	1.51%	July 31, 2023
5,000,000	3.5	0.77%	September 11, 2023
10,000,000	5.0	1.45%	December 31, 2024
5,000,000	5.0	0.91%	March 10, 2025
4,746,475	10.0	2.64%	December 23, 2025
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
25,000,000	1.0	4.81%	November 10, 2023
25,000,000	1.5	4.69%	May 10, 2024
25,000,000	2.0	4.59%	November 8, 2024
50,000,000	4.0	2.98%	December 8, 2027
50,000,000	4.0	3.49%	December 8, 2027
50,000,000	4.0	3.28%	December 8, 2027
50,000,000	10.0	2.77%	December 13, 2032
65,000,000	overnight	4.31%	January 1, 2023

Securities sold under agreements to repurchase were $221.4 million at December 31, 2022, an increase of $75.1 million from $146.3 million at December 31, 2021 primarily due to seasonal cash needs of customers. Securities sold under agreements to repurchase have overnight maturities and a weighted average rate of 2.30%.

(In thousands)	2022	2021	2020
Securities sold under agreements to repurchase:			
Maximum outstanding at any month-end	$ 257,061	$ 212,503	$ 350,288
Average amount outstanding for the year	202,242	173,762	219,298

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.

Repurchase agreements by class of collateral pledged are as follows (in thousands):

	December 31, 2022	December 31, 2021
US Treasury securities and obligations of U.S. government corporations and agencies	$ 47,775	$ 53,782
Mortgage-backed securities: GSE: residential	173,639	92,486
Total	$ 221,414	$ 146,268

At December 31, 2022, there was no outstanding loan balance on the revolving credit agreement with The Northern Trust Company. This loan was renewed on April 8, 2022 for one year as a revolving credit agreement with a maximum available balance of $15 million. The interest rate is floating at 2.25% over the federal funds rate. The loan is secured by all the stock of First Mid Bank. Management believes that the Company and its subsidiary banks were in compliance with all the existing covenants at December 31, 2022 and 2021.

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.

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.

The Company had approximately $1.4 million of costs, including a debt issuance discount of $1.2 million in connection with the debt issuance. This expense is being amortized to interest expense over the life of the notes. At December 31, 2022, the recorded balance of subordinated notes was $94.6 million.

On April 26, 2006, the Company completed the issuance and sale of $10 million of fixed/floating rate trust preferred securities through 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) after June 15, 2011 (6.37% and 1.80% at December 31, 2022 and 2021). The net proceeds to the Company were used for general corporate purposes, including the Company’s acquisition of Mansfield.

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 million of trust preferred securities and an additional $124,000 additional 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 (6.47% and 2.05% at December 31, 2022 and 2021, 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 million of trust preferred securities and an additional $186,000 additional 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 (6.62% and 1.90% at December 31, 2022 and 2021, respectively) and resets quarterly.

The trust preferred securities issued by Trust II, CLST I, and FBTCSTI 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 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." On December 10, 2013, the federal banking agencies issued final rules to implement the prohibitions required by the Volcker Rule. Following the publication of the final rule, and in reaction to concerns in the banking industry regarding the adverse impact the final rule's treatment of certain collateralized debt instruments has on community banks, the federal banking agencies approved an interim final rule to permit banking entities to retain interests in certain collateralized debt obligations backed primarily by trust preferred securities. Under the interim final rule, the agencies permit the retention of an interest in or sponsorship of covered funds by banking entities under $15 billion in assets 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. Although the Volcker Rule impacts many large banking entities, 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.

Note 10 -- Regulatory Capital

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"), and First Mid Bank follow similar minimum regulatory requirements established for national banks by the Office of the Comptroller of the Currency ("OCC"). 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 each regulatory capital standards to ensure capital adequacy require the Company and its subsidiary bank to maintain a minimum capital amounts and ratios (set forth in the table below). Management believes that, as of December 31, 2022 and 2021, the Company and First Mid Bank all capital adequacy requirements.

As of December 31, 2022 and 2021, the most recent notification from the primary regulators categorized First Mid Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, minimum 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 table below. At December 31, 2022, there were no conditions or events since the most recent notification that management believes have changed this categorization.

	Actual		Required Minimum For Capital Adequacy Purposes with Capital Buffer		To Be Well-Capitalized Under Prompt Corrective Action Provisions	
(Dollars in thousands)	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
December 31, 2022						
Total capital (to risk-weighted assets)						
Company	$ 801,966	15.20%	$ 554,164	>10.50%	N/A	N/A
First Mid Bank	745,624	14.18%	552,161	>10.50%	$ 525,868	> 10.00%
Tier 1 capital (to risk-weighted assets)						
Company	654,453	12.40%	448,609	> 8.50	N/A	N/A
First Mid Bank	692,664	13.17%	446,987	> 8.50	420,694	> 8.00
Common equity tier 1 capital (to risk-weighted assets)						
Company	635,089	12.03%	369,442	> 7.00	N/A	N/A
First Mid Bank	692,664	13.17%	368,107	> 7.00	341,814	> 6.50
Tier 1 capital (to average assets)						
Company	654,453	9.68%	268,875	> 4.00	N/A	N/A
First Mid Bank	692,664	10.22%	270,990	> 4.00	338,738	> 5.00
December 31, 2021						
Total capital (to risk-weighted assets)						
Company	$ 674,310	15.79%	$ 448,344	>10.50%	N/A	N/A
First Mid Bank	624,150	14.67%	446,711	>10.50%	$ 425,439	> 10.00%
Tier 1 capital (to risk-weighted assets)						
Company	534,277	12.51%	362,945	> 8.50	N/A	N/A
First Mid Bank	578,517	13.60%	361,623	> 8.50	340,351	> 8.00
Common equity tier 1 capital (to risk-weighted assets)						
Company	515,082	12.06%	298,896	> 7.00	N/A	N/A
First Mid Bank	578,517	13.60%	297,807	> 7.00	276,535	> 6.50
Tier 1 capital (to average assets)						
Company	534,277	9.05%	236,151	> 4.00	N/A	N/A
First Mid Bank	578,517	9.83%	235,337	> 4.00	294,171	> 5.00

The Company's risk-weighted assets, capital and capital ratios for December 31, 2022 and 2021 were computed in accordance with Basel III capital rules which were effective January 1, 2015. Prior periods were computed following previous rules. See heading "Basel III" in the Overview section of this report for a more detailed description of Basel III rules. As of December 31, 2022 and 2021, 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.

Note 11 -- Disclosures of Fair Values of Financial Instruments

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 independently sources 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.

Equity Securities. The fair value of current equity securities is determined by obtaining quoted market prices in an active market and are classified within Level 1. In cases where quoted market prices are not available, fair values are estimated by using quoted prices of securities with similar characteristics and are 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 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 December 31, 2022 and 2021 (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)
December 31, 2022				
Available-for-sale securities:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 220,527	$ —	$ 220,527	$ —
Obligations of states and political subdivisions	287,698	—	287,698	—
Mortgage-backed securities	627,880	—	627,880	—
Other securities	82,880	—	73,630	9,250
Total available-for-sale securities	1,218,985	—	1,209,735	9,250
Equity securities	311	311	—	—
Derivative assets: interest rate swaps	4,253	—	4,253	—
Total assets	$ 1,223,549	$ 311	$ 1,213,988	$ 9,250
Derivative liabilities: interest swaps	$ 3,100	$ —	$ 3,100	$ —
December 31, 2021				
Available-for-sale securities:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 203,815	$ —	$ 203,815	$ —
Obligations of states and political subdivisions	395,457	—	395,358	99
Mortgage-backed securities	791,038	—	791,038	—
Other securities	31,112	—	31,112	—
Total available-for-sale securities	1,421,422	—	1,421,323	99
Equity securities	397	397	-	—
Derivative assets: interest rate swaps	809	—	809	—
Total assets	$ 1,422,628	$ 397	$ 1,422,132	$ 99
Derivative liabilities: interest swaps	$ 1,476	$ —	$ 1,476	$ —

The change in fair value of assets measured on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31, 2022 and 2021 is summarized as follows (in thousands):

	Obligations of State and Political Subdivisions	Other	Total
December 31, 2022			
Beginning balance	$ 99	$ —	$ 99
Transfers into Level 3	—	9,250	9,250
Transfers out of Level 3	—	—	—
Total gains or losses			
Included in net income	—	—	—
Included in other comprehensive income (loss)	—	—	—
Purchases, issuances, sales and settlements			
Purchases	—	—	—
Issuances	—	—	—
Sales	—	—	—
Settlements	(99)	—	(99)
Ending balance	$ —	$ 9,250	$ 9,250
Total gains or losses for the period included in net income attributable to the change in unrealized gains or losses related to assets and liabilities still held at the reporting date	$ —	$ —	$ —
December 31, 2021			
Beginning balance	$ 794	$ —	$ 794
Transfers into Level 3	—	—	—
Transfers out of Level 3	—	—	—
Total gains or losses			
Included in net income	3	—	3
Included in other comprehensive income (loss)	—	—	—
Purchases, issuances, sales and settlements			
Purchases	—	—	—
Issuances	—	—	—
Sales	—	—	—
Settlements	(698)	—	(698)
Ending balance	$ 99	$ —	$ 99
Total gains or losses for the period included in net income attributable to the change in unrealized gains or losses related to assets and liabilities still held at the reporting date	$ —	$ —	$ —

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. Impaired loans that are collateral dependent are classified within Level 3 of the fair value hierarchy when impairment is determined using the fair value method.

Management establishes a specific allowance for 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 December 31, 2022 was $3.3 million and a fair value of $2.5 million resulting in specific loss exposures of $0.8 million. As of December 31, 2021, the total carrying amount of loans for which a change specific allowance has occurred was $8.0 million. These loans had a fair value of $6.8 million which resulted in specific loss exposures of $1.2 million.

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 December 31, 2022 was $4.3 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 total carrying amount of other real estate owned as of December 31, 2021 was $5.0 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 $2.1 million.

Mortgage Servicing Rights

As of December 31, 2022, mortgage servicing rights had a carrying value of $0 and a fair value of $0 resulting in a valuation reserve of $0. As of December 31, 2021, mortgage servicing rights had a carrying value of $468,000 and a fair value of $420,000 resulting in a valuation reserve of $48,000. The fair value used to determine the valuation reserve for mortgage servicing rights was estimated using the discounted cash flow models. Due to the nature of the valuation inputs, mortgage servicing rights are classified within Level 3 of the fair value hierarchy.

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 December 31, 2022 and 2021 (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)
December 31, 2022				
Collateral dependent loans	$ 2,548	$ —	$ —	$ 2,548
Foreclosed assets held for sale	—	—	—	—
December 31, 2021				
Collateral dependent loans	$ 6,750	$ —	$ —	$ 6,750
Foreclosed assets held for sale	2,068	—	—	2,068
Mortgage servicing rights	420	—	—	420

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 December 31, 2022.

	Fair Value (in thousands)	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Collateral dependent loans	$ 2,548	Third party valuations	Discount to reflect realizable value	0% - 40% (20%)
Foreclosed assets held for sale	—	Third party valuations	Discount to reflect realizable value less estimated selling costs	0% - 40% (35%)
Mortgage servicing rights	#REF!	Third party valuations	PSA standard prepayment model rate	128 -437 (137)

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

	Fair Value (in thousands)	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Collateral dependent loans	$ 6,750	Third party valuations	Discount to reflect realizable value	0% - 40% (20%)
Foreclosed assets held for sale	2,068	Third party valuations	Discount to reflect realizable value less estimated selling costs	0% - 40% (35%)
Mortgage servicing rights	420	Third party valuations	PSA standard prepayment model rate	205 -513 (273)

The following tables present estimated fair values of the Company's financial instruments at December 31, 2022 and 2021 (in thousands):

	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
December 31, 2022					
Financial assets					
Cash and due from banks	$ 144,806	$ 144,806	$ 144,806	$ —	$ —
Federal funds sold	7,627	7,627	7,627	—	—
Certificates of deposit investments	1,470	1,470	—	1,470	—
Available-for-sale securities	1,218,986	1,218,986	—	1,209,736	9,250
Held-to-maturity securities	2,954	2,954	2,954	—	—
Equity securities	311	311	311	—	—
Loans held for sale	338	338	—	338	—
Loans net of allowance for credit losses	4,766,781	4,460,661	—	—	4,460,661
Interest receivable	28,357	28,357	—	28,357	—
Federal Reserve Bank stock	17,050	17,050	—	17,050	—
Federal Home Loan Bank stock	18,440	18,440	—	18,440	—
Financial liabilities					
Deposits	$ 5,257,001	$ 5,257,748	$ —	$ 4,550,222	$ 707,526
Securities sold under agreements to repurchase	221,414	221,260	—	221,260	—
Interest payable	3,346	3,346	—	3,346	—
Federal Home Loan Bank borrowings	465,071	459,327	—	459,327	—
Subordinated debentures	94,553	87,977	—	87,977	—
Junior subordinated debentures	19,364	17,164	—	17,164	—
December 31, 2021					
Financial assets					
Cash and due from banks	$ 167,242	$ 167,242	$ 167,242	$ —	$ —
Federal funds sold	1,360	1,360	1,360	—	—
Certificates of deposit investments	2,450	2,450	—	2,450	—
Available-for-sale securities	1,421,422	1,421,422	—	1,421,323	99
Held-to-maturity securities	7,030	7,034	2,029	5,005	—
Equity securities	397	397	397	—	—
Loans held for sale	2,748	2,748	—	2,748	—
Loans net of allowance for credit losses	3,938,120	3,889,870	—	—	3,889,870
Interest receivable	19,868	19,868	—	19,868	—
Federal Reserve Bank stock	13,845	13,845	—	13,845	—
Federal Home Loan Bank stock	6,484	6,484	—	6,484	—
Financial liabilities					
Deposits	$ 4,956,486	$ 4,956,738	$ —	$ 4,394,434	$ 562,304
Securities sold under agreements to repurchase	146,268	146,274	—	146,274	—
Interest payable	1,346	1,346	—	1,346	—
Federal Home Loan Bank borrowings	86,446	86,248	—	86,248	—
Subordinated debentures	94,400	94,400	—	94,400	—
Junior subordinated debentures	19,195	15,012	—	15,012	—

Note 12 -- Deferred Compensation Plan

The Company follows the provisions of ASC 710, for purposes of the First Mid Bancshares, Inc. Amended and Restated Deferred Compensation Plan ("DCP"). At December 31, 2022, the Company classified the cost basis of its common stock issued and held in trust in connection with the DCP of approximately $4,799,000 as treasury stock. The Company also classified the cost basis of its related deferred compensation obligation of approximately $4,799,000 as an equity instrument (deferred compensation). The DCP was effective as of June 1984. The purpose of the DCP is to enable directors, advisory directors, and key employees the opportunity to defer a portion of the fees and cash compensation paid by the Company as a means of maximizing the effectiveness and flexibility of compensation arrangements. The Company invests all participants' deferrals in shares of common stock. Dividends paid on the shares are credited to participants' DCP accounts and invested in additional shares. During 2022 and 2021, the Company issued 8,378 common shares and 9,513 common shares, respectively, pursuant to the DCP.

The Company also maintains deferred compensation arrangements that were acquired in the Soy Capital acquisition. Individual participants in the agreements are primarily business development employees in the First Mid Insurance and First Mid Wealth Management divisions. The total liabilities associated with these agreements are included in other liabilities on the Company's consolidated balance sheets as of December 31, 2022 and 2021.

Note 13 -- Stock Incentive Plan

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.

A maximum of 149,983 shares are authorized under the SI Plan. There have been no options awarded since 2008. All previously issued, unexercised options expired on December 16, 2018. The Company awarded 63,150, 48,575 and 25,950 shares (under the 2017 Stock Incentive Plan) during 2022, 2021, and 2020, respectively, as stock and stock unit awards.

The following table summarizes the compensation cost, net of forfeitures, related to stock-based compensation for the years ended December 31, 2022, 2021, and 2020 (in thousands):

	2022	2021	2020
Stock and stock unit awards:			
Pre-tax compensation expense	$ 1,874	$ 1,304	$ 774
Income tax benefit	(394)	(274)	(163)
Total share-based compensation expense, net of income taxes	$ 1,480	$ 1,030	$ 611

The following table summarizes non-vested stock and stock unit activity for the years ended December 31, 2022, 2021, and 2020:

	2022		2021		2020	
	Shares	Weighted-avg Grant-date Fair Value	Shares	Weighted-avg Grant-date Fair Value	Shares	Weighted-avg Grant-date Fair Value
Nonvested, beginning of year	62,040	$ 34.27	42,220	$ 34.62	37,908	$ 35.49
Granted	63,150	41.07	48,575	34.42	25,950	34.46
Vested	(40,759)	38.20	(28,355)	35.02	(21,305)	35.99
Forfeited	(2,383)	(39.35)	(400)	(34.34)	(333)	(33.31)
Nonvested, end of year	82,048	$ 37.41	62,040	$ 34.27	42,220	$ 34.62
Fair value of shares vested		$ 1,556,870		$ 993,094		$ 766,774

The fair value of the awards is amortized to compensation expense over the vesting periods of the awards (four years for restricted stock unit awards and three years for restricted stock awards) and is based on the market price of the Company's common stock at the date of grant multiplied by the number of shares granted that are expected to vest. As of December 31, 2022, 2021, and 2020, there was $2.6 million, $1.7 million, and $1.2 million, respectively, of total unrecognized compensation cost related to unvested stock and stock unit awards under the SI Plan.

Note 14 -- Retirement Plans

The Company has a defined contribution retirement plan which covers substantially all employees, which provides a Company matching contribution of up to 100% of the first 3% and 50% of the next 2% of pre-tax contributions made by each participant. Employee contributions are limited to the 402(g) limit of compensation. The total expense for the plan amounted to $3.9 million, $3.6 million and $2.6 million in 2022, 2021, and 2020, respectively. The Company also has an agreement in place to pay $50,000 annually for 20 years from the retirement date to a senior officer that retired December 31, 2013. Total expense under this agreement amounted to $24,000, $27,000 and $28,000 in 2022, 2021, and 2020 respectively. The current liability recorded for this agreement was $394,000 and $419,000, as of December 31, 2022 and 2021, respectively.

Note 15 -- Income Taxes

The components of federal and state income tax expense for the years ended December 31, 2022, 2021, and 2020 were as follows (in thousands):

	2022	2021	2020
Current			
Federal	$ 14,401	$ 12,269	$ 12,315
State	6,171	6,384	7,120
Total current	20,572	18,653	19,435
Deferred			
Federal	(2,005)	(2,562)	(3,318)
State	(227)	(793)	(1,645)
Total deferred	(2,232)	(3,355)	(4,963)
Total	$ 18,340	$ 15,298	$ 14,472

Recorded income tax expense differs from the expected tax expense (computed by applying the applicable statutory U.S. federal tax rate of 21% to income before income taxes). The principal reasons for the difference are as follows (in thousands):

	2022	2021	2020
Expected income taxes	$ 19,172	$ 14,025	$ 12,546
Effects of:			
Tax-exempt income from bank owned life insurance	(659)	(575)	(363)
Other tax exempt income	(2,497)	(2,072)	(1,758)
Nondeductible interest expense	255	17	45
State taxes, net of federal taxes	4,695	4,417	4,325
Other items	(2,525)	(514)	(323)
Effect of marginal tax rate	(101)	—	—
Total	$ 18,340	$ 15,298	$ 14,472

Tax expense recorded by the Company during 2022 and 2020 did not include any interest or penalties. Tax expense recorded during 2021 included interest of approximately $2,100. Tax returns filed with the Internal Revenue Service and Illinois Department of Revenue are subject to review by law under a three-year statute of limitations. The Company is no longer subject to U.S. federal or state income tax examinations by tax authorities for years before 2019.

The tax effects of the temporary differences that gave rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2022 and 2021 are presented below (in thousands):

	2022	2021
Deferred tax assets:		
Allowance for credit losses	$ 16,248	$ 12,957
Available-for-sale investment securities	61,880	339
Deferred compensation	4,157	4,025
Supplemental retirement	492	460
Deferred loan costs	302	—
Stock compensation expense	147	163
Deferred revenue	349	79
Purchase accounting	795	443
Acquisition costs	179	217
Other	894	1,139
Total gross deferred tax assets	85,443	19,822
Deferred tax liabilities:		
Intangibles amortization	6,398	107
Prepaid expenses	1,418	6,480
FHLB stock dividend	22	985
Deferred expenses	104	23
Purchase accounting	—	915
Depreciation	4,911	3,463
Accumulated accretion	245	111
Mortgage servicing rights	91	118
Other	—	321
Available-for-sale investment securities	—	—
Total gross deferred tax liabilities	13,189	12,523
Deferred tax assets, net	$ 72,254	$ 7,299

No valuation allowance related to deferred tax assets was recorded at December 31, 2022 and 2021 as management believes it is more likely than not that the deferred tax assets will be fully realized.

Note 16 -- Dividend Restrictions

The National Bank Act imposes limitations on the amount of dividends that may be paid by a national bank, such as First Mid Bank. Generally, a national bank may pay dividends out of its undivided profits, in such amounts and at such times as the bank's board of directors deems prudent. Without prior OCC approval, however, a national bank may not pay dividends in any calendar year which, in the aggregate, exceed the bank's year-to-date net income plus the bank's adjusted retained net income for the two preceding years. Factors that could adversely affect First Mid Bank's net income include other-than- temporary impairment on investment securities that result in credit losses and economic conditions in industries where there are concentrations of loans outstanding that result in impairment of these loans and, consequently loan charges and the need for increased allowances for losses. See "Item 1A. Risk Factors," Note 4 – "Investment Securities" and Note 5 – "Loans" for a more detailed discussion of the factors.

The payment of dividends by any financial institution or its holding company is affected by the requirement to maintain adequate capital pursuant to applicable capital adequacy guidelines and regulations, and a financial institution generally is prohibited from paying any dividends if, following payment thereof, the institution would be undercapitalized. As described above, First Mid Bank exceeded their minimum capital requirements under applicable guidelines as of December 31, 2022. As of December 31, 2022, approximately $82.3 million was available to be paid as dividends to the Company by First Mid Bank. Notwithstanding the availability of funds for dividends, however, the OCC may prohibit the payment of any dividends by First Mid Bank if the OCC determines that such payment would constitute an unsafe or unsound practice.

Note 17 -- Commitments and Contingent Liabilities

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 December 31, 2022 and 2021 were as follows (in thousands):

	2022	2021
Unused commitments and lines of credit:		
Commercial real estate	$ 147,702	$ 118,190
Commercial operating	655,676	529,035
Home equity	63,570	59,422
Other	307,030	293,339
Total	$ 1,173,978	$ 999,986
Standby letters of credit	$ 10,162	$ 14,403

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 at December 31, 2022 and 2021. 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.

Note 18 -- Related Party Transactions

Certain officers, directors and principal stockholders of the Company and its subsidiaries, their immediate families or their affiliated companies ("related parties") have loans with one or more of the subsidiaries. These loans are made in the ordinary course of business on substantially the same terms, including interest and collateral, as those prevailing for comparable transactions with others. Loans to related parties totaled approximately $169.7 million and $123.6 million at December 31, 2022 and 2021, respectively. Activity during 2022 and 2021 was as follows (in thousands):

	2022	2021
Beginning balance	$ 123,614	$ 55,125
New loans	135,464	117,927
Loan repayments	(89,394)	(49,438)
Ending balance	$ 169,684	$ 123,614

Deposits from related parties held by First Mid Bank at December 31, 2022 and 2021 totaled $31.2 million and $33.0 million, respectively.

Note 19 -- Business Combinations

On July 28, 2021, the Company and Brock Sub LLC, a newly formed Delaware limited liability company and wholly-owned subsidiary of the Company ("Delta Merger Sub"), entered into an Agreement and Plan of Merger (the "Delta Merger Agreement") with Delta Bancshares Company, a Missouri corporation ("Delta"), pursuant to which, among other things, the Company agreed to acquire 100% of the issued and outstanding shares of Delta pursuant to a business combination whereby Delta merged with and into Delta Merger Sub, whereupon the separate corporate existence of Delta ceased and Delta Merger Sub continued as the surviving company and a wholly-owned subsidiary of First Mid (the "Delta Merger"). The Delta Merger was completed on February 14, 2022.

Subject to the terms and conditions of the Delta Merger Agreement, at the effective time of the Delta Merger, each share of common stock, par value $10.00 per share, of Delta issued and outstanding immediately prior to the effective time of the Delta Merger (other than shares held in treasury by Delta) converted into and became the right to receive cash and shares of common stock, par value $4.00 per share, of the Company 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 paid by the Company at the closing of the Delta Merger to Delta's shareholders and option holders was approximately $15.15 million in cash and 2,292,270 shares of Company common stock. Delta's outstanding stock options vested upon consummation of the Delta Merger, and all outstanding Delta options that were unexercised prior to the effective time of the Delta Merger were cashed out.

The acquisition was accounted for under the acquisition method of accounting in accordance with ASC 805, "Business Combinations ("ASC 805")," and accordingly the assets and liabilities were recorded at their estimated fair values as of the date of acquisition. Fair values are subject to refinement for up to one year after the closing date of February 14, 2022 as additional information regarding the closing date fair values become available. The total consideration paid was used to determine the amount of goodwill resulting from the transaction. As the total consideration paid exceeded the net assets acquired, goodwill of $28.6 million was recorded for the acquisition. Goodwill recorded in the transaction, which reflects the synergies and economies of scale expected from combining operations and the enhanced revenue opportunities from the Company's service capabilities, is not tax deductible, and was all assigned to the banking segment of the Company.

	Acquired Book Value	Adjustments	As Recorded by First Mid Bank
Assets			
Cash and due from banks	$ 82,473	$ —	$ 82,473
Investment securities	184,959	(2,836)	182,123
Loans	426,433	(7,924)	418,509
Allowance for loan losses	(5,388)	4,525	(863)
Premises and equipment	5,522	3,508	9,030
Goodwill	14	28,544	28,558
Core deposit intangible	—	5,920	5,920
Bank owned life insurance	15,822	—	15,822
Right of use asset	—	717	717
Other assets	9,061	(1,287)	7,774
Total assets acquired	$ 718,896	$ 31,167	$ 750,063
Liabilities and stockholders' equity			
Deposits	$ 558,619	$ 1,759	$ 560,378
Securities sold under agreements to repurchase	35,523	—	35,523
FHLB advances	45,000	75	45,075
Lease liability	—	717	717
Other liabilities	2,209	(1,161)	1,048
Total liabilities assumed	641,351	1,390	642,741
Net assets acquired	$ 77,545	$ 29,777	$ 107,322
Consideration paid			
Cash			$ 15,150
Common stock			92,172
Total consideration paid			$ 107,322

The Company has recognized approximately $2.5 million, pre-tax, of acquisition costs for the Delta Merger. Of this amount, $2.2 million was recognized during 2022. These costs are included in salaries and benefits, legal and professional and other expense. Of the $7.9 million adjustment to loans, $8.2 million is being accreted to interest income over the remaining term of the loans. The remaining $300,000 was the elimination of deferred fees and unearned discounts previously recorded by Jefferson Bank. The Company also recorded approximately $863,000 directly to the allowance for credit losses for loans identified as PCD. Of the $426 million of loans acquired, approximately $18.8 million was identified as PCD. The differences between fair value and acquired value of the assumed time deposits of $1.8 million and the assumed FHLB advances of $75,000, are being amortized to interest expense over the remaining life of the liabilities. The core deposit intangible asset, with a fair value of $5.9 million, is being amortized on an accelerated basis over its estimated life of 10 years. 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 Delta Merger taken place at the beginning of the period (dollars in thousands, except per share data):

	Twelve months ended December 31,	
	2022	2021
Net interest income	$ 187,075	$ 147,387
Provision for loan losses	4,806	14,679
Non-interest income	74,799	53,371
Non-interest expense	165,062	132,086
Income before income taxes	92,006	53,993
Income tax expense	18,508	12,321
Net income available to common stockholders	$ 73,498	$ 41,672
Earnings per share		
Basic	$ 3.64	$ 2.07
Diluted	$ 3.63	$ 2.07
Basic weighted average shares outstanding	20,169,077	20,111,889
Diluted weighted average shares outstanding	20,243,635	20,164,909

On September 25, 2020, the Company and Eval Sub Inc., a newly formed Missouri corporation and wholly owned subsidiary of the Company ("LINCO Merger Sub"), entered into an Agreement and Plan of Merger (the "LINCO Merger Agreement") with LINCO Bancshares, Inc., a Missouri corporation ("LINCO"), and the sellers as defined therein, pursuant to which, among other things, the Company agreed to acquire 100% of the issued and outstanding shares of LINCO pursuant to a business combination whereby LINCO Merger Sub will merge with and into LINCO, whereupon the separate corporate existence of LINCO Merger Sub will cease and LINCO will continue as the surviving company and a wholly owned subsidiary of the Company (the "LINCO Merger").

Subject to the terms and conditions of the LINCO Merger Agreement, at the effective time of the LINCO Merger, each share of common stock, par value $1.00 per share, of LINCO issued and outstanding immediately prior to the effective time of the LINCO Merger (other than shares held in treasury by LINCO) was converted into and became the right to receive, cash or shares of common stock, par value $4.00 per share, of the Company 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 paid by the Company at the closing of the LINCO Merger was $103.5 million in cash and 1,262,246 shares of the Company’s common stock. In addition, immediately prior to the closing of the LINCO merger, LINCO paid a special dividend to its shareholders in the aggregate amount of $13 million. The LINCO Merger closed on February 22, 2021.

The acquisition was accounted for under the acquisition method of accounting in accordance with ASC 805, *“Business Combinations ("ASC 805"),”* and accordingly the assets and liabilities were recorded at their estimated fair values as of the date of acquisition. Fair values are subject to refinement for up to one year after the closing date of February 22, 2021 as additional information regarding the closing date fair values become available. The total consideration paid was used to determine the amount of goodwill resulting from the transaction. As the total consideration paid exceeded the net assets acquired, goodwill of $5.4 million was recorded for the acquisition. Goodwill recorded in the transaction, which reflects the synergies and economies of scale expected from combining operations and the enhanced revenue opportunities from the Company’s service capabilities, is not tax deductible, and was all assigned to the banking segment of the Company.

	Acquired Book Value	Adjustments	As Recorded by First Mid Bank
Assets			
Cash and due from banks	$ 130,561	$ —	$ 130,561
Investment securities	119,234	264	119,498
Loans	838,377	(9,401)	828,976
Allowance for loan losses	(8,656)	6,583	(2,073)
Other real estate owned	8,435	915	9,350
Premises and equipment	23,440	6,360	29,800
Goodwill	20,503	(15,054)	5,449
Core deposit intangible	123	2,025	2,148
Right of use asset	—	794	794
Other assets	43,697	2,499	46,196
Total assets acquired	$ 1,175,714	$ (5,015)	$ 1,170,699
Liabilities and stockholders' equity			
Deposits	$ 988,329	$ 2,081	$ 990,410
Securities sold under agreements to repurchase	—	—	—
FHLB advances	26,941	975	27,916
Other borrowings	—	—	—
Lease liability	—	794	794
Other liabilities	4,498	(610)	3,888
Total liabilities assumed	1,019,768	3,240	1,023,008
Net assets acquired	$ 155,946	$ (8,255)	$ 147,691
Consideration paid			
Cash			$ 103,500
Common stock			44,191
Total consideration paid			$ 147,691

The Company recognized approximately $9.1 million, pre-tax, of acquisition costs for the LINCO Merger. Of this amount, $8.6 million was recognized during 2021 and $.5 million was recognized during 2020. These costs are included in salaries and benefits, legal and professional and other expense. Of the $9.4 million adjustment to loans, $11.1 million is being accreted to interest income over the remaining term of the loans. The remaining $1.7 million was the elimination of deferred fees and unearned discounts previously recorded by Providence Bank. The Company also recorded approximately $2 million directly to the allowance for credit losses for loans identified as PCD. Of the $838 million of loans acquired, approximately $64.6 million was identified as PCD.

The differences between fair value and acquired value of the assumed time deposits of $2.1 million and the assumed FHLB advances of $975,000, are being amortized to interest expense over the remaining life of the liabilities. The core deposit intangible assets, with a fair value of $2.1 million, are being amortized on an accelerated basis over its estimated life of 10 years.

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 LINCO Merger taken place at the beginning of the period (dollars in thousands, except per share data):

	Twelve months ended December 31, 2021	Twelve months ended December 31, 2020
Net interest income	$ 173,676	$ 169,430
Provision for loan losses	15,351	18,242
Non-interest income	70,879	66,228
Non-interest expense	159,778	152,596
Income before income taxes	69,426	64,820
Income tax expense	15,994	15,944
Net income available to common stockholders	$ 53,432	$ 48,876
Earnings per share		
Basic	$ 2.99	$ 2.72
Diluted	$ 2.98	$ 2.71
Basic weighted average shares outstanding	17,886,998	17,979,126
Diluted weighted average shares outstanding	17,979,007	18,025,102

Note 20 -- Leases

Effective January 1, 2019, the Company adopted ASU 2016-02 Leases (Topic 842). As of December 31, 2022, substantially all of the Company's leases are operating leases for real estate property 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, an entity 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 needs to reassess initial direct costs for any existing leases.

The Company 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 not to 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 the 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):

	2022	2021
Operating lease right-of-use assets	$ 15,774	$ 15,116
Operating lease liabilities	16,035	15,322
Weighted-average remaining lease term	5.8 years	6.6 years
Weighted-average discount rate	2.67%	2.70%

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.

Future minimum lease payments under operating leases are (in thousands):

	Operating Leases
2023	$ 3,035
2024	2,615
2025	2,178
2026	2,067
2027	3,587
Thereafter	4,488
Total minimum lease payments	17,970
Less imputed interest	(1,935)
Total lease liability	$ 16,035

The components of lease expense for the twelve months ended December 31, 2022 and 2021 were as follows (in thousands):

	2022	2021
Operating lease cost	$ 3,040	$ 2,515
Short-term lease cost	75	260
Variable lease cost	720	871
Total lease cost	3,835	3,646
Income from subleases	(369)	(527)
Net lease cost	$ 3,466	$ 3,119

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):

	2022	2021
Operating cash flows from operating leases	$ 3,061	$ 2,872

Note 21 -- Derivatives

The Company utilizes interest rate swaps, designated as fair value hedges, to mitigate the risk of changing interest rates on the fair value of fixed rate loans. 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 value of outstanding derivatives designated as hedging instruments as of December 31, 2022 and 2021 (in thousands):

Derivative	Balance Sheet Location	Weighted Average Remaining Maturity (Years)	Notional Amount	Estimated Value
December 31, 2022				
Interest rate swap agreements	Other liabilities	6.3	$ 13,448	$ (3,100)
December 31, 2021				
Interest rate swap agreements	Other liabilities	7.3	$ 13,900	$ (1,476)

The effects of fair value hedges on the Company's income statement during the twelve months ended December 31, 2022 and 2021 were as follows (in thousands):

Derivative	Location of Gain (Loss) on Derivative	2022	2021
Interest rate swap agreements	Interest income on loans	$ 1,819	$ (827)

Derivative	Location of Gain (Loss) on Hedged Items	2022	2021
Interest rate swap agreements	Interest income on loans	$ (1,819)	$ 827

As of December 31, 2022 and 2021, the following amounts were recorded on the balance sheet related to the cumulative basis adjustment for fair value hedges (in thousands):

Line Item in the Balance Sheet in Which the Hedge Items are Included	Carrying Amount of the Hedged Assets	Cumulative Amount of Fair Value Hedging Adjustments Included in the Carrying Amount of the Hedged Assets
December 31, 2022		
Loans	$ 12,295	$ (1,153)
December 31, 2021		
Loans	$ 13,234	$ 667

Derivatives Not Designated as Hedging Instruments

The following table provides the outstanding notional balances and fair value of outstanding derivatives not designated as hedging instruments as of December 31, 2022 and 2021 (in thousands):

	Balance Sheet Location	Weighted Average Remaining Maturity (Years)	Notional Amount	Estimated Value
December 31, 2022				
Interest rate swap agreements	Other assets	5.0	$ 39,095	$ 4,253
Interest rate swap agreements	Other liabilities	5.0	39,095	(4,253)
December 31, 2021				
Interest rate swap agreements	Other assets	6.0	$ 40,886	$ 809
Interest rate swap agreements	Other liabilities	6.0	40,886	(809)

Note 22 -- Parent Company Only Financial Statements

Presented below are condensed balance sheets, statements of income and cash flows for the Company (in thousands):

First Mid Bancshares, Inc. (Parent Company)
Balance Sheets

	December 31,	
	2022	2021
Assets		
Cash	$ 24,854	$ 28,421
Premises and equipment, net	4,955	4,377
Investment in subsidiaries	714,237	713,296
Other assets	5,212	4,048
Total assets	$ 749,258	$ 750,142
Liabilities and stockholders' equity		
Liabilities		
Debt	$ 113,917	$ 113,595
Other liabilities	2,186	2,653
Total liabilities	116,103	116,248
Stockholders' equity	633,155	633,894
Total liabilities and stockholders' equity	$ 749,258	$ 750,142

First Mid Bancshares, Inc. (Parent Company)
Statements of Income and Comprehensive Income (Loss)

	Years ended December 31,		
	2022	2021	2020
Income:			
Dividends from subsidiaries	$ 34,040	$ 28,075	$ 29,663
Other income	542	9	43
Total income	34,582	28,084	29,706
Operating expenses	9,221	9,630	4,697
Income before income taxes and equity in undistributed earnings of subsidiaries	25,361	18,454	25,009
Income tax benefit	2,780	2,656	1,231
Income before equity in undistributed earnings of subsidiaries	28,141	21,110	26,240
Equity in undistributed earnings of subsidiaries	44,811	30,380	19,030
Net income	72,952	51,490	45,270
Other comprehensive income (loss), net of taxes	(150,676)	(17,926)	8,735
Comprehensive income (loss)	$ (77,724)	$ 33,564	$ 54,005

First Mid Bancshares, Inc. (Parent Company)
Statements of Cash Flows

	Years ended December 31,		
	2022	**2021**	**2020**
Cash flows from operating activities:			
Net income	$ 72,952	$ 51,490	$ 45,270
Adjustments to reconcile net income to net			
Cash provided by operating activities:			
Depreciation, amortization, accretion, net	218	350	104
Dividends received from subsidiary	34,040	28,075	29,663
Equity in undistributed earnings of subsidiaries	(44,811)	(30,380)	(19,030)
Increase in other assets	(208,359)	(206,880)	(30,121)
Increase in other liabilities	(146)	1,760	1,349
Net cash provided by (used in) operating activities	(146,106)	(155,585)	27,235
Cash flows from investing activities:			
Investment in subsidiary	—	—	(700)
Net cash from business acquisition	67,323	30,968	—
Net cash provided by (used in) investing activities	67,323	30,968	(700)
Cash flows from financing activities:			
Repayment of short-term debt	—	—	(5,000)
Proceeds from short-term debt	—	—	5,000
Issuance of subordinated debt	—	—	94,253
Proceeds from issuance of common stock	93,415	46,128	610
Payment to repurchase common stock	(340)	(326)	(213)
Direct expense related to capital transactions	(29)	(206)	—
Dividends paid on common stock	(17,830)	(14,721)	(12,814)
Net cash provided by financing activities	75,216	30,875	81,836
Increase (decrease) in cash	(3,567)	(93,742)	108,371
Cash at beginning of year	28,421	122,163	13,792
Cash at end of year	$ 24,854	$ 28,421	$ 122,163

Report of Independent Registered Public Accounting Firm

Audit Committee, Board of Directors and Stockholders
First Mid Bancshares, Inc.
Mattoon, Illinois

Opinion on the Consolidated Financial Statements

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

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of December 31, 2022, based on criteria established in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 3, 2023, expressed an unqualified opinion thereon.

Basis for Opinion

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

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

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

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

Critical Audit Matters

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

<u>Allowance for Credit Losses</u>

As more fully described in Notes 1 and 5 to the consolidated financial statements, the Company estimates the allowance for credit losses (ACL) at a level that is appropriate to cover estimated credit losses on individually evaluated loans, as well as estimated credit losses inherent in the remainder of the loan and lease portfolio. The determination of the ACL requires significant judgment reflecting the Company's best estimate of expected credit losses. Expected credit losses are measured on a collective (pool) basis using a combination of loss-rate methods when the financial assets share similar risk characteristics. Loans that do not share similar risk characteristics are evaluated on an individual basis. Historical loss rates reflecting estimated life of loan losses are analyzed and applied to their respective loan segments comprised of loans not subject to individual evaluation. Historical loss rates are adjusted for significant factors that, in management's judgment, reflect the impact of any current conditions on loss recognition, as well as for certain known model limitations. Forecast factors are developed based on information obtained from external sources, as well as consideration of other internal information, and are included in the ACL model for a reasonable and supportable 12-month forecast period, with loss factors immediately reverting back to historic loss rates. Management continually reevaluates the other subjective and forecast factors included in its ACL analysis.

The primary reason for our determination that the ACL is a critical audit matter is that auditing the estimated ACL involved significant judgment and complex review. Auditing the ACL involved a high degree of subjectivity in evaluating management's estimates, such as evaluating management's model selections, segmentation, weighted average life calculations, assessment of economic conditions and other environmental factors, assessment of forecast factors, evaluating the adequacy of specific allowances associated with individually evaluated loans and assessing the appropriateness of loan grades.

Our audit procedures related to the estimated ACL included the following procedures, among others.

- Obtaining an understanding of the Company's process for establishing the ACL, including model selection and the qualitative and forecast factor adjustments of the ACL and any limitations of the model
- Testing the design and operating effectiveness of internal controls, including those related to technology over the ACL calculation, including data completeness and accuracy, verification of historical net loss data and calculated net loss rates, the establishment of qualitative and forecast adjustments, grading and risk classification of loans by segment, including internal independent loan review functions, establishment of reserves on individually evaluated loans and management's review controls over the ACL as a whole
- Testing of the completeness and accuracy of the information utilized in the calculation of the ACL, including reports used in management review controls over the ACL
- Assessing the relevance and reliability of assumptions and data
- Testing clerical and computational accuracy of the formulas within the ACL model
- Evaluating how historical losses are determined for each segment
- Evaluating segmentation of the loan portfolio for reasonableness based on risk characteristics of the pooled loans
- Evaluating the qualitative factor and forecast adjustments, including assessing the basis and reasonableness for the adjustments
- Evaluating management's risk ratings of loans
- Evaluating specific reserves on individually analyzed loans
- Evaluating overall reasonableness of estimated reserve by considering and comparing past performance of the Company's loan portfolio, trends in credit quality of the loan portfolio and trends in the credit quality of peer institutions

We have served as the Company's auditor since 2005.

FORVIS, LLP

(Formerly, BKD, LLP)

Decatur, Illinois
March 3, 2023

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Company's management carried out an evaluation, under the supervision and with the participation of the chief executive officer and the chief financial officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of December 31, 2022. Based upon that evaluation, the chief executive officer along with the chief financial officer concluded that the Company's disclosure controls and procedures as of December 31, 2022, were effective.

Management's Annual Report on Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. The Company's internal control over financial reporting is a process designed under the supervision of the Company's chief executive officer and chief financial officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2022 based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in "Internal Control—Integrated Framework (2013)."

Based on the assessment, management determined that, as of December 31, 2022, the Company's internal control over financial reporting is effective, based on those criteria. Management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2022 has been audited by BKD, LLP, an independent registered public accounting firm, as stated in their report following.

March 3, 2023

/s/ Joseph R. Dively

Joseph R. Dively
President and Chief Executive Officer

/s/ Matthew K. Smith

Matthew K. Smith
Chief Financial Officer

Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting that occurred during the Company's fourth fiscal quarter of 2022 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Report of Independent Registered Public Accounting Firm

Audit Committee, Board of Directors and Stockholders
First Mid Bancshares, Inc.
Mattoon, Illinois

Opinion on the Internal Control over Financial Reporting

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

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated financial statements of the Company as of December 31, 2022 and 2021, and for each of the three years in the period ended December 31, 2022, and our report dated March 3, 2023 expressed an unqualified opinion on those financial statements.

Basis for Opinion

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

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

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

Definitions and Limitations of Internal Control over Financial Reporting

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

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

Decatur, Illinois
March 3, 2023

ITEM 9B. OTHER INFORMATION

None.

ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information called for by Item 10 with respect to directors and director nominees is incorpo

rated by reference to the Company's Proxy Statement for the 2023 Annual Meeting of the Company's shareholders under the captions "Proposal 1 – Election of Directors," "Corporate Governance Matters" and "Section 16 – Beneficial Ownership Reporting Compliance."

The information called for by Item 10 with respect to executive officers is incorporated by reference to Part I hereof under the caption "Supplemental Item – Executive Officers of the Company" and to the Company's Proxy Statement for the 2023 Annual Meeting of the Company's shareholders under the caption "Section 16 – Beneficial Ownership Reporting Compliance."

The information called for by Item 10 with respect to audit committee financial expert is incorporated by reference to the Company's Proxy Statement for the 2023 Annual Meeting of the Company's shareholders under the captions "Audit Committee" and "Report of the Audit Committee to the Board of Directors."

The information called for by Item 10 with respect to corporate governance is incorporated by reference to the Company's Proxy Statement for the 2023 Annual Meeting of the Company's shareholders under the caption "Corporate Governance Matters."

The Company has adopted a code of conduct for directors, officers, and employees including senior financial management of the Company. This code of conduct is posted on the Company's website. In the event that the Company amends or waives any provisions of this code of conduct, the Company intends to disclose the same on its website at www.firstmid.com.

ITEM 11. EXECUTIVE COMPENSATION

The information called for by Item 11 is incorporated by reference to the Company's Proxy Statement for the 2023 Annual Meeting of the Company's shareholders under the captions "Executive Compensation," "Non-qualified Deferred Compensation," "Potential Payments Upon Termination or Change in Control of the Company," "Director Compensation," "Corporate Governance Matters – Compensation Committee Interlocks and Insider Participation," and "Compensation Committee Report."

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

The information called for by Item 12 with respect to equity compensation plans is provided in the table below.

	Equity Compensation Plan Information		
Plan category	Number of securities to be issued upon exercise of outstanding options (a)	Weighted-average exercise price of outstanding options (b)	Number of securities remaining available for future issuance under equity compensation plans (c)
Equity compensation plans approved by security holders:			
(A) Deferred compensation plan	—	$ —	297,344 (1)
(B) Stock incentive plan	—	—	193,882 (2)
Equity compensation plans not approved by security holders (3)	—	—	—
Total	—	$ —	491,226

(1) Consists of shares issuable with respect to participant deferral contributions invested in common stock.
(2) Consists of restricted stock and/or restricted stock units.
(3) The Company does not maintain any equity compensation plans not approved by stockholders. The Company's equity compensation plans approved by security holders consist of the Deferred Compensation Plan and the Stock Incentive Plan. Additional information regarding each plan is available in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Stock Plans" and Note 13 – Stock Incentive Plan herein.

The information called for by Item 12 with respect to security ownership is incorporated by reference to the Company's Proxy Statement for the 2023 Annual Meeting of the Company's shareholders under the caption "Voting Securities and Principal Holders Thereof."

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information called for by Item 13 is incorporated by reference to the Company's Proxy Statement for the 2023 Annual Meeting of the Company's shareholders under the captions "Certain Relationships and Related Transactions" and "Corporate Governance Matters – Board of Directors."

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information called for by Item 14 is incorporated by reference to the Company's Proxy Statement for the 2023 Annual Meeting of the Company's shareholders under the caption "Fees of Independent Auditors."

PART IV

ITEM 15. EXHIBIT AND FINANCIAL STATEMENT SCHEDULES

(a)(1) and (2) -- Financial Statements and Financial Statement Schedules

The following consolidated financial statements and financial statement schedules of the Company are filed as part of this document under Item 8.

Financial Statements and Supplementary Data:

- Consolidated Balance Sheets -- December 31, 2022 and 2021
- Consolidated Statements of Income -- For the Years Ended December 31, 2022, 2021, and 2020
- Consolidated Statements of Comprehensive Income -- For the Years Ended December 31, 2022, 2021, and 2020
- Consolidated Statements of Changes in Stockholders' Equity -- For the Years Ended December 31, 2022, 2021, and 2020
- Consolidated Statements of Cash Flows -- For the Years Ended December 31, 2022, 2021, and 2020.

(a)(3) – Exhibits

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

ITEM 16. FORM 10-K SUMMARY

None.

Exhibit Index to Annual Report on Form 10-K

Exhibit Number	Description and Filing or Incorporation Reference
2.1	**Agreement and Plan of Merger by and among First Mid Bancshares, Inc., Brock Sub LLC and Delta Bancshares Company, dated July 28, 2021** Incorporated by reference to Exhibit 2.1 to First Mid Bancshares, Inc.'s Current Report on Form 8-K filed with the SEC on July 29, 2021.
3.1	**Restated Certificate of Incorporation of First Mid-Illinois Bancshares, Inc.** Incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed with the SEC on April 26, 2019.
3.2	**Amended and Restated Bylaws of First Mid-Illinois Bancshares, Inc.** Incorporated by reference to Exhibit 3.3 to First Mid-Illinois Bancshares, Inc.'s Current Report on Form 8-K filed with the SEC on April 26, 2019.
4.1	The Registrant agrees to furnish to the Commission, upon request, a copy of each instrument with respect to issues of long-term debt involving a total amount which does not exceed 10% of the total assets of the Registrant and its subsidiaries on a consolidated basis.
4.2	**Description of Common Stock** Incorporated by reference to Exhibit 4.2 of the Company's Annual Report of Form 10-K filed with the SEC on March 9, 2020.
4.3	**Indenture, dated as of October 6, 2020, between First Mid Bancshares, Inc. and U.S. Bank National Association, as Trustee** Incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the SEC on October 6, 2020
4.4	**First Supplemental Indenture, dated as of October 6, 2020, between First Mid Bancshares, Inc. and U.S. Bank National Association, as Trustee (including the form of Note attached as an exhibit thereto)** Incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed with the SEC on October 6, 2020
4.5	**Form of 3.95% Fixed-to-Floating Rate Subordinated Note due 2030 (included in Exhibit 4.4)**
10.1	**Employment Agreement between the Company and Joseph R. Dively** Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on December 21, 2022.
10.2	**Employment Agreement between the Company and Michael L. Taylor** Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on December 17, 2020.
10.3	**Employment Agreement between the Company and Matthew K. Smith** Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on December 17, 2020.
10.4	**Employment Agreement between the Company and Eric S. McRae** Incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed with the SEC on December 21, 2022.
10.5	**Employment Agreement between the Company and Bradley L. Beesley** Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on December 21, 2022.
10.6	**First Amendment to the First Mid-Illinois Bancshares, Inc. Amended and Restated Deferred Compensation Plan** Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on September 26, 2018.
10.7	**2017 Stock Incentive Plan** Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on May 1, 2017.
10.8	**Form of 2017 Incentive Plan Stock Unit Agreement** Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on May 25, 2017.
10.9	**Form Agreement to Accelerate the Vesting of the First Mid-Illinois Bancshares, Inc. Stock Unit Awards** Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on December 19, 2017.
10.10	**Form of Restricted Stock Award Agreement** Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on January 29, 2018.
10.11	**Form of Stock Unit/Restricted Stock Award Agreement** Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on January 29, 2018.
10.12	**Supplemental Executive Retirement Plan** Incorporated by reference to Exhibit 10.8 to the Company's Annual Report on Form 10-K for the for the year ended December 31, 2005.
10.13	**First Amendment to Supplemental Executive Retirement Plan** Incorporated by reference to Exhibit 10.9 to the Company's Annual Report on Form 10-K for the for the year ended December 31, 2005.
10.14	**Participation Agreement (as Amended and Restated) to Supplemental Executive Retirement Plan between the Company and William S. Rowland** Incorporated by reference to Exhibit 10.10 to the Company's Annual Report on Form 10-K for the year ended December 31, 2005.
10.15	**Description of Incentive Compensation Plan** Incorporated by reference to Exhibit 10.22 to the Company's Annual Report on Form 10-K for the year ended December 31, 2017.
10.16	**Sixth Amended and Restated Credit Agreement**

Exhibit Number	Description and Filing or Incorporation Reference
	Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on April 15, 2019.
10.17	**Second Amendment to Sixth Amended and Restated Credit Agreement** Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on January 27, 2021.
10.18	**Third Amendment to the Sixth Amended and Restated Credit Agreement by and between First Mid Bancshares, Inc. and The Northern Trust Company, dated as of April 9, 2021** Incorporated by reference to Exhibit 10.1 to First Mid Bancshares, Inc.'s Current Report on Form 8-K filed with the SEC on April 12, 2021.
10.19	**Fourth Amendment to the Sixth Amended and Restated Credit Agreement by and between First Mid Bancshares, Inc. and The Northern Trust Company, dated as of February 7, 2022** Incorporated by reference to Exhibit 10.1 to First Mid Bancshares, Inc.'s Current Report on Form 8-K filed with the SEC on February 8, 2022.
10.20	**Fifth Amendment to the Sixth Amended and Restated Credit Agreement by and between First Mid Bancshares, Inc. and The Northern Trust Company, dated as of April 8, 2022** Incorporated by reference to Exhibit 10.1 to First Mid Bancshares, Inc.'s Current Report on Form 8-K filed with the SEC on April 11, 2022.
10.21	**Registration Rights Agreement, dated as of February 22, 2021, by and between First Mid Bancshares, Inc. and the stockholder named therein** Incorporated by reference to Exhibit 10.1 to the Company's Current Report on 8-K filed with the SEC on February 22, 2021
21.1	**Subsidiaries of the Company** (Filed herewith)
23.1	**Consent of BKD LLP** (Filed herewith)
31.1	**Certification of Chief Executive Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002** (Filed herewith)
31.2	**Certification of Chief Financial Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002** (Filed herewith)
32.1	**Certification of Chief Executive Officer pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002** (Filed herewith)
32.2	**Certification of Chief Financial Officer pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002** (Filed herewith)
101 INS	**Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL document**
101 SCH	**Inline XBRL Taxonomy Extension Schema Document**
101 CAL	**Inline XBRL Taxonomy Calculation Linkbase Document**
101 DEF	**Inline XBRL Taxonomy Definition Linkbase Document**
101 LAB	**Inline XBRL Taxonomy Label Linkbase Document**
101 PRE	**Inline XBRL Taxonomy Presentation Linkbase Document**
104	**Cover Page Interactive Data File (embedded within the Inline XBRL document**

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: March 3, 2023

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on the 3th day of March 2023, by the following persons on behalf of the Company and in the capacities listed.

Signature and Title

/s/ Joseph R. Dively
Joseph R. Dively, Chairman of the Board,
President and Chief Executive Officer and Director
(Principal Executive Officer)

/s/ Matthew K. Smith
Matthew K. Smith, Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

/s/ Holly B. Adams
Holly B. Adams, Director

/s/ Robert Cook
Robert Cook, Director

/s/ Steven L. Grissom
Steven L. Grissom, Director

/s/ Zachary I. Horn
Zachary I. Horn, Director

/s/ J. Kyle McCurry
J. Kyle McCurry, Director

/s/ Mary J. Westerhold
Mary J. Westerhold, Director

/s/ James Zimmer
James Zimmer, Director

/s/ Giselle A. Marcus
Gisele A. Marcus

Exhibit 21.1

Subsidiaries of the Company

First Mid Bank & Trust, N.A. (a national banking association)

First Mid Wealth Management Company (an Illinois corporation)

First Mid Insurance Group, Inc. (an Illinois corporation)

First Mid Captive, Inc. (a Nevada corporation)

First Mid-Illinois Statutory Trust II (a Delaware business trust)

Clover Leaf Statutory Trust I (a Maryland business trust)

FBTC Statutory Trust I (a Delaware business trust)

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors
First Mid Bancshares, Inc.

Re: Registration Statements

Registration No. 333-81850 on Form S-3

Registration No. 333-161582 on Form S-3

Registration No. 333-207199 on Form S-3

Registration No. 333-216855 on Form S-3

Registration No. 333-227595 on Form S-3

Registration No. 333-251465 on Form S-3

Registration No. 033-64061 on Form S-8

Registration No. 033-64139 on Form S-8

Registration No. 333-69673 on Form S-8

Registration No. 333-81852 on Form S-8

Registration No. 333-148080 on Form S-8

Registration No. 333-186919 on Form S-8

Registration No. 333-218691 on Form S-8

Registration No. 333-224508 on Form S-8

We consent to incorporation by reference in the Registration Statements on Form S-3 and S-8 of First Mid Bancshares, Inc. of our reports dated March 3, 2023, on our audits of the consolidated financial statements of First Mid Bancshares, Inc. as of December 31, 2022 and 2021 and for each of the three years in the period ended December 31, 2022, and the effectiveness of the Company's internal control over financial reporting as of December 31, 2022 which reports appear in the December 31, 2022 annual report on Form 10-K of First Mid Bancshares, Inc.

FORVIS, LLP
(Formerly, BKD, LLP)

Decatur, Illinois
March 3, 2023

Exhibit 31.1

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

I, Joseph R. Dively, certify that:

1. I have reviewed this annual report on Form 10-K 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: March 3, 2023

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

Exhibit 31.2

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

I, Matthew K. Smith, certify that:

1. I have reviewed this annual report on Form 10-K 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: March 3, 2023

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

Exhibit 32.1

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 Annual Report of First Mid Bancshares, Inc. (the “Company”) on Form 10-K for the period ended December 31, 2022 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: March 3, 2023

/s/ Joseph R. Dively

Joseph R. Dively
President and Chief Executive Officer

Exhibit 32.2

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 Annual Report of First Mid Bancshares, Inc. (the "Company") on Form 10-K for the period ended December 31, 2022 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: March 3, 2023

/s/ Matthew K. Smith

Matthew K. Smith
Chief Financial Officer

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First Mid Leadership

Executive Management Team

JOSEPH R. DIVELY
Chairman and
Chief Executive Officer

MICHAEL L. TAYLOR
Senior Executive Vice President,
Chief Operating Officer

MATTHEW K. SMITH
Executive Vice President,
Chief Financial Officer

LAUREL G. ALLENBAUGH
Executive Vice President,
Chief Operations Officer

BRADLEY L. BEESLEY
Chief Executive Officer,
First Mid Wealth Management Co.

CLAY M. DEAN
Chief Executive Officer,
First Mid Insurance Group, Inc.

RHONDA R. GATONS
Executive Vice President,
Chief Human Resources Officer

AMANDA D. LEWIS
Executive Vice President,
Chief Deposit Services Officer

ERIC S. MCRAE
Executive Vice President,
Chief Lending Officer

JASON M. CROWDER
Senior Vice President,
General Counsel

DAVID R. HIDEN
Senior Vice President,
Chief Information Officer

MEGAN E. MCELWEE
Senior Vice President,
Chief Credit Officer

JORDAN D. READ
Senior Vice President,
Chief Risk Officer

ANYA Y. SCHUETZ
Senior Vice President,
Director of Project Management

ANNUAL MEETING OF STOCKHOLDERS

The annual meeting of stockholders will be Wednesday, April 26, 2023 at 4:00 p.m. in the lobby of First Mid Bank & Trust, 1515 Charleston Avenue, Mattoon, Illinois.

Board of Directors

HOLLY B. ADAMS
Lead Independent Director
President, Howell Asphalt Company
President, Howell Paving, Inc.

ROBERT S. COOK
Managing Partner,
TAR CO Investments, LLC

JOSEPH R. DIVELY
Chairman and
Chief Executive Officer,
First Mid Bancshares, Inc.

STEVEN L. GRISSOM
Chief Executive Officer,
SKL Investment Group, LLC

ZACHARY I. HORN
President and Founder,
Metro Communications
Company, Inc.

GISELE A. MARCUS
Professor of Practice,
Olin Business School
Washington University in St. Louis

J. KYLE MCCURRY
Chair, Nominating and Governance Committee
Chief Operating Officer
and General Counsel,
Paige Sports Entertainment

MARY J. WESTERHOLD
Chair, Audit Committee
Chief Financial Officer,
Madison Communications, Inc.

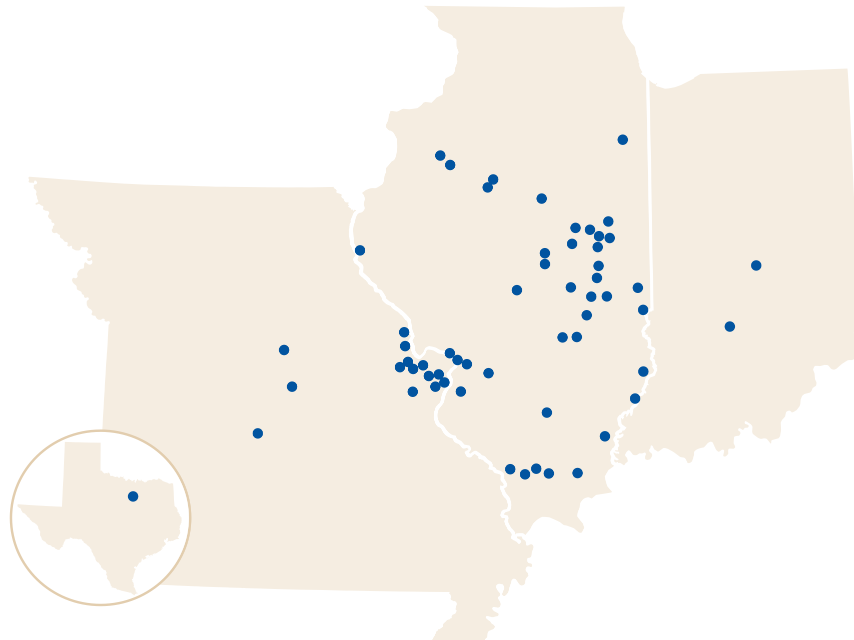
JAMES E. ZIMMER
Chair, Compensation Committee
Co-Founder,
Moraine Farmland Partners

Corporate Profile

First Mid Bancshares, Inc. ("First Mid") is the parent company of First Mid Bank & Trust, N.A. ("First Mid Bank"), First Mid Wealth Management Co., and First Mid Insurance Group, Inc.

First Mid is a $6.7 billion community-focused organization that provides a full-suite of financial services including banking, wealth management, brokerage, ag services, and insurance through a sizeable network of locations throughout Illinois, Missouri, and the greater Indianapolis, Indiana and Dallas, Texas areas. Together, our First Mid team takes great pride in their work and their ability to serve our customers well over the last 157 years.

More information about First Mid is available on our website at www.firstmid.com. Our stock is traded in the NASDAQ Stock Market LLC under the ticker symbol "FMBH."



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