FIRST MERCHANTS CORP
Form 10-Q
May 09, 2016

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

[x] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2016
OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from _______ to _______

Commission File Number 0-17071

FIRST MERCHANTS CORPORATION
(Exact name of registrant as specified in its charter)

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

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

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

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

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 [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files).
Yes [X] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer [X] Accelerated filer [ ] Non-accelerated filer [ ] (Do not check if smaller reporting company) Smaller reporting company [ ]

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

As of April 29, 2016, there were 40,749,494 outstanding common shares of the registrant.

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(table dollar amounts in thousands, except share data)

CONSOLIDATED CONDENSED BALANCE SHEETS

	March 31, 2016 (Unaudited)	December 31, 2015
ASSETS		
Cash and cash equivalents	$ 85,738	$ 102,170
Interest-bearing time deposits	77,453	32,315
Investment securities available for sale	636,785	658,400
Investment securities held to maturity (fair value of $655,445 and $632,380)	633,992	618,599
Loans held for sale	3,628	9,894
Loans, net of allowance for loan losses of $62,086 and $62,453	4,647,821	4,631,369
Premises and equipment	96,494	97,648
Federal Reserve and Federal Home Loan Bank stock	37,553	37,633
Interest receivable	22,836	24,415
Core deposit intangibles	17,799	16,635
Goodwill	244,000	243,129
Cash surrender value of life insurance	200,549	200,539
Other real estate owned	15,626	17,257
Tax asset, deferred and receivable	47,982	46,977
Other assets	30,283	24,023
TOTAL ASSETS	$ 6,798,539	$ 6,761,003
LIABILITIES		
Deposits:		
Noninterest-bearing	$ 1,282,462	$ 1,266,027
Interest-bearing	4,028,608	4,023,620
Total Deposits	5,311,070	5,289,647
Borrowings:		
Federal funds purchased	602	49,721
Securities sold under repurchase agreements	150,134	155,325
Federal Home Loan Bank advances	263,588	235,652
Subordinated debentures and term loans	127,523	127,846
Total Borrowings	541,847	568,544
Interest payable	3,910	3,092
Other liabilities	74,449	49,211
Total Liabilities	5,931,276	5,910,494
COMMITMENTS AND CONTINGENT LIABILITIES		
STOCKHOLDERS' EQUITY		
Cumulative Preferred Stock, $1,000 par value, $1,000 liquidation value:		
Authorized - 600 shares		
Issued and outstanding - 125 shares	125	125
Common Stock, $.125 stated value:		
Authorized - 50,000,000 shares		
Issued and outstanding - 40,749,340 and 40,664,259 shares	5,094	5,083
Additional paid-in capital	504,661	504,530

Retained earnings	355,317	342,133
Accumulated other comprehensive income (loss)	2,066	(1,362)
Total Stockholders' Equity	867,263	850,509
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$6,798,539	$6,761,003

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CONSOLIDATED CONDENSED STATEMENTS OF INCOME

(Unaudited)

	Three Months Ended March 31,	
	2016	2015
INTEREST INCOME		
Loans receivable:		
Taxable	$50,489	$43,551
Tax exempt	1,315	248
Investment securities:		
Taxable	4,328	4,723
Tax exempt	4,509	3,835
Deposits with financial institutions	106	37
Federal Reserve and Federal Home Loan Bank stock	480	550
Total Interest Income	61,227	52,944
INTEREST EXPENSE		
Deposits	4,063	3,516
Federal funds purchased	28	23
Securities sold under repurchase agreements	100	78
Federal Home Loan Bank advances	796	691
Subordinated debentures and term loans	1,785	1,660
Total Interest Expense	6,772	5,968
NET INTEREST INCOME	54,455	46,976
Provision for loan losses	550	
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	53,905	46,976
OTHER INCOME		
Service charges on deposit accounts	4,145	3,548
Fiduciary activities	2,494	2,507
Other customer fees	5,059	3,667
Commission income		2,328
Earnings on cash surrender value of life insurance	1,476	747
Net gains and fees on sales of loans	1,460	1,489
Net realized gains on sales of available for sale securities	997	1,025
Other income	690	921
Total Other Income	16,321	16,232
OTHER EXPENSES		
Salaries and employee benefits	27,337	24,541
Net occupancy	4,022	3,790
Equipment	3,238	2,566
Marketing	737	780
Outside data processing fees	2,069	1,717
Printing and office supplies	364	364

Core deposit amortization	978	721
FDIC assessments	950	863
Other real estate owned and foreclosure expenses	1,235	1,229
Professional and other outside services	2,162	1,491
Other expenses	3,867	3,140
Total Other Expenses	46,959	41,202
INCOME BEFORE INCOME TAX	23,267	22,006
Income tax expense	5,574	5,834
NET INCOME AVAILABLE TO COMMON STOCKHOLDERS	$17,693	$16,172
Per Share Data:		
Basic Net Income Available to Common Stockholders	$0.43	$0.43
Diluted Net Income Available to Common Stockholders	$0.43	$0.43
Cash Dividends Paid	$0.11	$0.08
Average Diluted Shares Outstanding (in thousands)	40,917	38,000

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CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended March 31,	
	2016	2015
Net income	$17,693	$16,172
Other comprehensive income net of tax:		
Unrealized holding gain on securities available for sale arising during the period, net of tax of $2,765 and $528	5,135	980
Unrealized loss on cash flow hedges arising during the period, net of tax of $684 and $447	(1,270)	(829)
Reclassification adjustment for gains included in net income, net of tax of $236 and $235	(437)	(436)
	3,428	(285)
Comprehensive income	$21,121	$15,887

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CONSOLIDATED CONDENSED STATEMENT OF STOCKHOLDERS' EQUITY
(Unaudited)

	Preferred		Common Stock		Additional		Accumulated Other	
	Shares	Amount	Shares	Amount	Paid in Capital	Retained Earnings	Comprehensive Income (Loss)	Total
Balances, December 31, 2015	125	$ 125	40,664,259	$5,083	$504,530	$342,133	$ (1,362)	$850,509
Comprehensive income								
Net income						17,693		17,693
Other comprehensive income, net of tax							3,428	3,428
Cash dividends on common stock ($.11 per share)						(4,509)		(4,509)
Share-based compensation			101,984	13	580			593
Stock issued under employee benefit plans			5,932	1	118			119
Stock issued under dividend reinvestment and stock purchase plan			7,030	1	164			165
Stock options exercised			6,700	1	75			76
Stock redeemed			(36,565)	(5)	(806)			(811)
Balances, March 31, 2016	125	$ 125	40,749,340	$5,094	$504,661	$355,317	$ 2,066	$867,263

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CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended	
	March 31, 2016	March 31, 2015
Cash Flow From Operating Activities:		
Net income	$17,693	$16,172
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	550	
Depreciation and amortization	1,835	1,534
Change in deferred taxes	3,324	3,643
Share-based compensation	593	517
Tax benefit from stock options exercised	(3)	(14)
Loans originated for sale	(87,689)	(69,384)
Proceeds from sales of loans	93,955	70,227
Gains on sales of securities available for sale	(997)	(1,025)
Change in interest receivable	1,579	427
Change in interest payable	818	484
Other adjustments	(6,862)	(4,883)
Net cash provided by operating activities	$24,796	$17,698
Cash Flows from Investing Activities:		
Net change in interest-bearing deposits	$(45,138)	$(35,708)
Purchases of:		
Securities available for sale	(32,632)	(20,193)
Securities held to maturity	(35,086)	(39,542)
Proceeds from sales of securities available for sale	69,623	38,198
Proceeds from maturities of:		
Securities available for sale	13,137	14,887
Securities held to maturity	19,134	18,685
Change in Federal Reserve and Federal Home Loan Bank stock	80	80
Net change in loans	(20,235)	(43,939)
Proceeds from the sale of other real estate owned	2,084	2,799
Other adjustments	(1,226)	(1,311)
Net cash used in investing activities	$(30,259)	$(66,044)
Cash Flows from Financing Activities:		
Net change in :		
Demand and savings deposits	$44,902	$(4,643)
Certificates of deposit and other time deposits	(24,650)	12,024
Borrowings	110,060	59,484
Repayment of borrowings	(136,321)	(44,319)
Cash dividends on common stock	(4,509)	(3,049)
Stock issued under employee benefit plans	119	129
Stock issued under dividend reinvestment and stock purchase plans	165	135
Stock options exercised	73	355

Tax benefit from stock options exercised	3	14
Stock redeemed	(811)	(1,157)
Net cash provided by (used in) financing activities	$(10,969)	$18,973
Net Change in Cash and Cash Equivalents	(16,432)	(29,373)
Cash and Cash Equivalents, January 1	102,170	118,616
Cash and Cash Equivalents, March 31	$85,738	$89,243
Additional cash flow information:		
Interest paid	$5,954	$5,484
Income tax paid	$3,500	$500
Loans transferred to other real estate owned	$32	$2,109
Fixed assets transferred to other real estate owned	$360	
Non-cash investing activities using trade date accounting	$19,935	$20,424

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(Unaudited)

NOTE 1

GENERAL

Financial Statement Preparation

The significant accounting policies followed by First Merchants Corporation (the "Corporation") and its wholly owned subsidiaries for interim financial reporting are consistent with the accounting policies followed for annual financial reporting. All adjustments, which are of a normal recurring nature and are in the opinion of management necessary for a fair statement of the results for the periods reported, have been included in the accompanying consolidated condensed financial statements.

The Consolidated Condensed Balance Sheet of the Corporation as of December 31, 2015, has been derived from the audited consolidated balance sheet of the Corporation as of that date. Certain information and note disclosures normally included in the Corporation's annual financial statements, prepared in accordance with accounting principles generally accepted in the United States of America, have been condensed or omitted. These consolidated condensed financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2015 filed with the Securities and Exchange Commission. The results of operations for the three months ended March 31, 2016, are not necessarily indicative of the results to be expected for the year. Reclassifications have been made to prior financial statements to conform to the current financial statement presentation. These reclassifications had no effect on net income.

NOTE 2

ACQUISITIONS AND DIVESTITURES

Acquisition - Ameriana Bancorp, Inc.

On December 31, 2015, the Corporation acquired 100 percent of Ameriana Bancorp, Inc. ("Ameriana"). Ameriana merged with and into the Corporation (the "Ameriana Merger") whereupon the separate corporate existence of Ameriana ceased and the Corporation survived. Immediately following the Ameriana Merger, Ameriana Bank, an Indiana bank and wholly-owned subsidiary of Ameriana, merged with and into First Merchants Bank, National Association, a national bank and wholly-owned subsidiary of the Corporation (the "Bank"), with the Bank continuing as the surviving bank. Ameriana was headquartered in New Castle, Indiana and had 13 banking centers serving central and east central Indiana. Pursuant to the merger agreement, each Ameriana shareholder received 0.9037 shares of the Corporation's common stock for each outstanding share of Ameriana common stock held. The Corporation issued approximately 2.8 million shares of common stock, which was valued at approximately $70.4 million. The Corporation engaged in this transaction with the expectation that it would be accretive and expand the existing footprint in central and east central Indiana. Goodwill resulted from this transaction due to the expected synergies and economies of scale that are expected.

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

	Fair Value
Cash and cash equivalents	$4,068
Interest-bearing time deposits	8,790
Investment securities	61,754
Loans	316,929
Premises and equipment	13,946
Federal Home Loan Bank stock	2,693
Other real estate owned	5,613
Interest receivable	1,306
Cash surrender value of life insurance	28,188
Other assets	6,713
Deposits	(383,718)
Interest payable	(24)
Federal Home Loan Bank Advances	(24,884)
Subordinated debentures	(5,487)
Other liabilities	(9,451)
Net tangible assets acquired	26,436
Core deposit intangible	5,342
Goodwill	38,624
Purchase price	$70,402

(table dollar amounts in thousands, except share data)

Of the total purchase price, $5,342,000 has been allocated to a core deposit intangible that will be amortized over its estimated life of 10 years. The remaining purchase price has been allocated to goodwill, which is not deductible for tax purposes.

Acquisition - C Financial Corporation

On April 17, 2015, the Corporation acquired 100 percent of C Financial Corporation, ("C Financial"). C Financial merged with and into the Corporation (the “C Financial Merger”) whereupon the separate corporate existence of C Financial ceased and the Corporation survived. Immediately following the C Financial Merger, Cooper State Bank, an Ohio state bank and wholly-owned subsidiary of C Financial, merged with and into the Bank, with the Bank continuing as the surviving bank. C Financial was headquartered in Columbus, Ohio and had 6 full service banking centers serving the Columbus, Ohio market. As part of the $14.5 million C Financial Merger, shareholders of C Financial received $6.738 in cash for each share of C Financial common stock held.

The Corporation expects the transaction to be accretive to income and expand the existing footprint in Columbus, Ohio. Goodwill resulted from this transaction due to the synergies and economies of scale that were expected. The purchase price of the C Financial acquisition was allocated as follows:

	Fair Value
Cash and cash equivalents	$2,496
Federal Funds sold	7,018
Interest-bearing time deposits	922
Loans	110,625
Premises and equipment	7,290
Federal Home Loan Bank stock	855
Interest receivable	292
Other assets	119
Deposits	(105,326)
Interest payable	(29)
Federal Home Loan Bank Advances	(18,958)
Other liabilities	(2,911)
Net tangible assets acquired	2,393
Core deposit intangible	981
Goodwill	11,126
Purchase price	$14,500

Of the total purchase price, $981,000 has been allocated to a core deposit intangible that will be amortized over its estimated life of 10 years. The remaining purchase price has been allocated to goodwill, which is deductible for tax purposes because the transaction was considered a taxable exchange.

Subsidiary Divestiture - First Merchants Insurance Services, Inc.

On June 12, 2015, the Corporation sold all of its stock in First Merchants Insurance Services, Inc., an Indiana corporation ("FMIG"), to USI Insurance Services LLC, a Delaware limited liability company. The sale price was $18 million, of which $16 million was paid at closing with the remaining $2 million paid through a two-year promissory note. The sale of FMIG generated a gain on sale of $8.3 million.

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NOTE 3

INVESTMENT SECURITIES

The amortized cost, gross unrealized gains and losses and approximate fair value of the investment securities portfolio at the dates indicated were:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale at March 31, 2016				
U.S. Government-sponsored agency securities	$100	$ 3		$103
State and municipal	312,516	17,711	$ 107	330,120
U.S. Government-sponsored mortgage-backed securities	295,443	7,183	40	302,586
Corporate obligations	31			31
Equity securities	3,882	63		3,945
Total available for sale	611,972	24,960	147	636,785
Held to maturity at March 31, 2016				
Federal agencies	13,978	22		14,000
State and municipal	218,374	9,244	49	227,569
U.S. Government-sponsored mortgage-backed securities	401,640	12,261	25	413,876
Total held to maturity	633,992	21,527	74	655,445
Total Investment Securities	$1,245,964	$ 46,487	$ 221	$1,292,230

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale at December 31, 2015				
U.S. Government-sponsored agency securities	$100	$ 4		$104
State and municipal	291,730	14,241	$ 60	305,911
U.S. Government-sponsored mortgage-backed securities	342,550	4,234	518	346,266
Corporate obligations	31			31
Equity securities	3,912			3,912
Certificates of deposit	2,176			2,176
Total available for sale	640,499	18,479	578	658,400
Held to maturity at December 31, 2015				
State and municipal	219,767	6,982	15	226,734
U.S. Government-sponsored mortgage-backed securities	398,832	7,601	787	405,646
Total held to maturity	618,599	14,583	802	632,380
Total Investment Securities	$1,259,098	$ 33,062	$ 1,380	$1,290,780

The amortized cost and fair value of available for sale and held to maturity securities at March 31, 2016, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Maturity Distribution at March 31, 2016:				
Due in one year or less	$3,963	$3,990	$2,533	$2,541
Due after one through five years	17,175	18,087	32,527	34,282
Due after five through ten years	54,387	57,310	90,434	92,992
Due after ten years	237,122	250,867	106,858	111,754
	$312,647	$330,254	$232,352	$241,569
U.S. Government-sponsored mortgage-backed securities	295,443	302,586	401,640	413,876
Equity securities	3,882	3,945		
Total Investment Securities	$611,972	$636,785	$633,992	$655,445

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	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Maturity Distribution at December 31, 2015				
Due in one year or less	$4,658	$4,704	$4,144	$4,148
Due after one through five years	13,725	14,295	28,054	29,175
Due after five through ten years	52,878	55,375	81,483	83,646
Due after ten years	220,600	231,672	106,086	109,765
	$291,861	$306,046	$219,767	$226,734
U.S. Government-sponsored mortgage-backed securities	342,550	346,266	398,832	405,646
Equity securities	3,912	3,912		
Certificates of deposit	2,176	2,176		
Total Investment Securities	$640,499	$658,400	$618,599	$632,380

The carrying value of securities pledged as collateral, to secure borrowings and for other purposes, was $625,319,000 at March 31, 2016, and $637,358,000 at December 31, 2015.

The book value of securities sold under agreements to repurchase amounted to $145,639,000 at March 31, 2016, and $153,789,000 at December 31, 2015.

Gross gains on the sales and redemptions of available for sale securities for the three months ended March 31, 2016 and 2015 are shown below.

	Three Months Ended March 31,	
	2016	2015
Sales and Redemptions of Available for Sale Securities:		
Gross gains	$997	$1,025
Gross losses		
Other-than-temporary impairment losses		

The following table shows investment securities with unrealized losses, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at March 31, 2016, and December 31, 2015:

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses

Temporarily Impaired Available for Sale Securities at March 31, 2016						
State and municipal	$8,375	$ 98	$1,197	$ 9	$9,572	$ 107
U.S. Government-sponsored mortgage-backed securities	1,131	5	$3,845	$ 35	4,976	40
Total Temporarily Impaired Available for Sale Securities	9,506	103	5,042	44	14,548	147
Temporarily Impaired Held to Maturity Securities at March 31, 2016						
State and municipal	3,179	48	673	1	3,852	49
U.S. Government-sponsored mortgage-backed securities			4,784	25	4,784	25
Total Temporarily Impaired Held to Maturity Securities	3,179	48	5,457	26	8,636	74
Total Temporarily Impaired Investment Securities	$12,685	$ 151	$10,499	$ 70	$23,184	$ 221

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Temporarily Impaired Available for Sale Securities at December 31, 2015						
State and municipal	$7,558	$ 60			$7,558	$ 60
U.S. Government-sponsored mortgage-backed securities	83,396	445	2,101	73	85,497	518
Total Temporarily Impaired Available for Sale Securities	90,954	505	2,101	73	93,055	578
Temporarily Impaired Held to Maturity Securities at December 31, 2015						
State and municipal			1,982	15	1,982	15
U.S. Government-sponsored mortgage-backed securities	69,641	519	12,906	268	82,547	787
Total Temporarily Impaired Held to Maturity Securities	69,641	519	14,888	283	84,529	802
Total Temporarily Impaired Investment Securities	$160,595	$ 1,024	$16,989	$ 356	$177,584	$ 1,380

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Certain investments in debt and equity securities are reported in the financial statements at an amount less than their historical cost as indicated in the table below.

	March 31, 2016	December 31, 2015
Investments reported at less than historical cost:		
Historical cost	$23,406	$178,964
Fair value	$23,184	$177,584
Percent of the Corporation's available for sale and held to maturity portfolio	1.8 %	13.9 %

Management believes the decline in fair value for these securities was temporary. Should the impairment of any of these securities become other-than-temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income during the period the other-than-temporary impairment is identified.

The Corporation’s management has evaluated all securities with unrealized losses for other-than temporary impairment as of March 31, 2016. The evaluations are based on the nature of the securities, the extent and duration of the loss and the intent and ability of the Corporation to hold these securities either to maturity or through the expected recovery period.

In determining the fair value of the investment securities portfolio, the Corporation utilizes a third party for portfolio accounting services, including market value input, for those securities classified as Level 1 and Level 2 in the fair value hierarchy. The Corporation has obtained an understanding of what inputs are being used by the vendor in pricing the portfolio and how the vendor was classifying these securities based upon these inputs. From these discussions, the Corporation’s management is comfortable that the classifications are proper. The Corporation has gained trust in the data for two reasons: (a) independent spot testing of the data is conducted by the Corporation through obtaining market quotes from various brokers on a periodic basis and (b) actual gains or losses resulting from the sale of certain securities has proven the data to be accurate over time. The fair value of securities classified as Level 3 in the valuation hierarchy was determined using a discounted cash flow model that incorporated market estimates of interest rates and volatility in markets that have not been active.

State and Municipal and U.S. Government-Sponsored Mortgage-Backed Securities

The unrealized losses on the Corporation’s investments in securities of state and political subdivisions and U.S. Government-sponsored mortgage-backed securities were caused by changes in interest rates and not credit quality. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost basis of the investments. The Corporation does not intend to sell the investments and more likely than not the Corporation won't be required to sell the investments before recovery of its lower amortized cost basis, which may be maturity. The Corporation does not consider the investment securities to be other-than-temporarily impaired at March 31, 2016.

Credit Losses Recognized on Investments

Certain corporate obligations experienced fair value deterioration due to credit losses and other market factors. The following table provides information about those securities for which only a credit loss was recognized in income and other losses were recorded in other comprehensive income.

	Accumulated Credit Losses in 2016	Accumulated Credit Losses in 2015
Credit losses on debt securities held:		
Balance, January 1		$ 500
Reductions for previous other-than-temporary losses realized on securities sold during the year		(500)
Balance, March 31	$ —	$ —

In the first quarter of 2015, the Corporation sold its remaining trust preferred security which had no remaining book value as a result of other than temporary impairment of approximately $500,000 taken in 2009. The sale of this security resulted in a gain of $45,000, which is included in the Consolidated Condensed Statement of Income for the three months ended March 31, 2015.

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NOTE 4

LOANS AND ALLOWANCE

The Corporation’s primary lending focus is small business and middle market commercial, commercial real estate, residential real estate and consumer, which results in portfolio diversification. The following tables show the composition of the loan portfolio, the allowance for loan losses and certain credit quality aspects, all excluding loans held for sale. Loans held for sale as of March 31, 2016, and December 31, 2015, were $3,628,000 and $9,894,000, respectively.

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

	March 31, 2016	December 31, 2015
Commercial and industrial loans	$1,060,559	$1,057,075
Agricultural production financing and other loans to farmers	92,137	97,711
Real estate loans:		
Construction	391,621	366,704
Commercial and farmland	1,806,395	1,802,921
Residential	769,592	786,105
Home Equity	353,946	348,613
Individuals' loans for household and other personal expenditures	73,622	74,717
Lease financing receivables, net of unearned income	461	588
Other commercial loans	161,574	159,388
Loans	$4,709,907	$4,693,822
Allowance for loan losses	(62,086)	(62,453)
Net Loans	$4,647,821	$4,631,369

Allowance, Credit Quality and Loan Portfolio

The Corporation maintains an allowance for loan losses to cover probable credit losses identified during its loan review process. Management believes the allowance for loan losses is adequate to cover probable losses inherent in the loan portfolio at March 31, 2016. The process for determining the adequacy of the allowance for loan losses is critical to the Corporation’s financial results. It requires management to make difficult, subjective and complex judgments, to estimate the effect of uncertain matters. The allowance for loan losses considers current factors, including economic conditions and ongoing internal and external examinations, and will increase or decrease as deemed necessary to ensure it remains adequate. In addition, the allowance as a percentage of charge offs and nonperforming loans will change at different points in time based on credit performance, portfolio mix and collateral values.

The allowance for loan losses is maintained through the provision for loan losses, which is a charge against earnings. The allowance is increased by provision expense and decreased by charge offs less recoveries. All charge offs are approved by the Bank’s senior loan officers or loan committees, depending on the amount of the charge off. The Bank charges off a loan when a determination is made that all or a portion of the loan is uncollectible. The amount provided for loan losses in a given period may be greater than or less than net loan losses experienced during the period, and is based on management’s judgment as to the appropriate level of the allowance for loan losses. The determination of the provision amount is based on management’s ongoing review and evaluation of the loan portfolio, including an internally administered loan "watch" list and independent loan reviews. The evaluation takes into consideration identified credit problems, the possibility of losses inherent in the loan portfolio that are not specifically identified and management’s judgment as to the impact of the current environment and economic conditions on the portfolio.

The allowance consists of specific impairment reserves as required by ASC 310-10-35, a component for historical losses in accordance with ASC 450 and the consideration of current environmental factors in accordance with ASC 450. A loan is deemed impaired when, based on current information or events, it is probable that all amounts due of principal and interest according to the contractual terms of the loan agreement will not be collected.

The historical loss allocation for loans not deemed impaired according to ASC 310 is the product of the volume of loans within the non-impaired criticized and non-criticized risk grade classifications, each segmented by call code, and the historical loss factor for each respective classification and call code segment. The historical loss factors are based upon actual loss experience within each risk and call code classification. The historical look back period for non-criticized loans looks to the most recent rolling-four-quarter average and aligns with the look back period for non-impaired criticized loans. Each of the rolling four quarter periods used to obtain the average, include all charge offs for the previous twelve-month period, therefore the historical look back period includes seven quarters. The resulting allocation is reflective of current conditions. Criticized loans are grouped based on the risk grade assigned to the loan. Loans with a special mention grade are assigned a loss factor, and loans with a classified grade but not impaired are assigned a separate loss factor. The loss factor computation for this allocation includes a segmented historical loss migration analysis of risk grades to charge off.

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In addition to the specific reserves and historical loss components of the allowance, consideration is given to various environmental factors to ensure that losses inherent in the portfolio are reflected in the allowance for loan losses. The environmental component adjusts the historical loss allocations for non-impaired loans to reflect relevant current conditions that, in management's opinion, have an impact on loss recognition. Environmental factors that management reviews in the analysis include: national and local economic trends and conditions; trends in growth in the loan portfolio and growth in higher risk areas; levels of, and trends in, delinquencies and non-accruals; experience and depth of lending management and staff; adequacy of, and adherence to, lending policies and procedures including those for underwriting; industry concentrations of credit; and adequacy of risk identification systems and controls through the internal loan review and internal audit processes.

In conformance with ASC 805 and ASC 820, loans purchased after December 31, 2008 are recorded at the acquisition date fair value. Such loans are included in the allowance to the extent a specific impairment is identified that exceeds the fair value adjustment on an impaired loan or the historical loss and environmental factor analysis indicates losses inherent in a purchased portfolio exceeds the fair value adjustment on the portion of the purchased portfolio not deemed impaired.

The following tables summarize changes in the allowance for loan losses by loan segment for the three months ended March 31, 2016, and March 31, 2015:

	Three Months Ended March 31, 2016					
	Commercial	Commercial Real Estate	Consumer	Residential	Finance Leases	Total
Allowance for loan losses:						
Balances, January 1	$26,478	$ 22,145	$ 2,689	$ 11,139	$ 2	$62,453
Provision for losses	139	214	33	164		550
Recoveries on loans	292	952	78	312		1,634
Loans charged off	(645)	(994)	(153)	(759)		(2,551)
Balances, March 31, 2016	$26,264	$ 22,317	$ 2,647	$ 10,856	$ 2	$62,086

	Three Months Ended March 31, 2015					
	Commercial	Commercial Real Estate	Consumer	Residential	Finance Leases	Total
Allowance for loan losses:						
Balances, January 1	$28,824	$ 19,327	$ 2,658	$ 13,152	$ 3	$63,964
Provision for losses	1,834	(2,896)	527	534	1	
Recoveries on loans	450	412	78	132		1,072
Loans charged off	(1,101)	(460)	(125)	(549)		(2,235)
Balances, March 31, 2015	$30,007	$ 16,383	$ 3,138	$ 13,269	$ 4	$62,801

The following tables show the Corporation’s allowance for loan losses and loan portfolio by segment as of the periods indicated:

March 31, 2016

	Commercial	Commercial Real Estate	Consumer	Residential	Finance Leases	Total
Allowance Balances:						
Individually evaluated for impairment	$967	$192		$59		$1,218
Collectively evaluated for impairment	25,229	22,075	$2,647	10,760	$2	60,713
Loans Acquired with Deteriorated Credit Quality	68	50		37		155
Total Allowance for Loan Losses	$26,264	$22,317	$2,647	$10,856	$2	$62,086
Loan Balances:						
Individually evaluated for impairment	$7,899	$22,411		$4,136		$34,446
Collectively evaluated for impairment	1,299,488	2,127,038	$73,622	1,114,759	$461	4,615,368
Loans Acquired with Deteriorated Credit Quality	6,883	48,567		4,643		60,093
Loans	$1,314,270	$2,198,016	$73,622	$1,123,538	$461	$4,709,907

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	December 31, 2015					
	Commercial	Commercial Real Estate	Consumer	Residential	Finance Leases	Total
Allowance Balances:						
Individually evaluated for impairment	$1,277	$243		$169		$1,689
Collectively evaluated for impairment	25,201	21,753	$2,689	10,966	$2	60,611
Loans Acquired with Deteriorated Credit Quality		149		$4		153
Total Allowance for Loan Losses	$26,478	$22,145	$2,689	$11,139	$2	$62,453
Loan Balances:						
Individually evaluated for impairment	$7,877	$16,670		$4,020		$28,567
Collectively evaluated for impairment	1,298,988	2,096,089	$74,717	1,125,316	$588	4,595,698
Loans Acquired with Deteriorated Credit Quality	7,309	56,866		5,382		69,557
Loans	$1,314,174	$2,169,625	$74,717	$1,134,718	$588	$4,693,822

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

Commercial

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

Commercial real estate

These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate lending typically involves higher loan principal amounts and the repayment of these loans is generally dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. Management monitors and evaluates commercial real estate loans based on collateral and risk grade criteria. In addition, management tracks the level of owner-occupied commercial real estate loans versus non-owner occupied loans.

Residential and Consumer

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

Loans are reclassified to a non-accruing status when, in management’s judgment, the collateral value and financial condition of the borrower do not justify accruing interest. Uncollected interest previously recorded, but not deemed collectible, is reversed and charged against current income. Payments subsequently received on non-accrual loans are applied to principal. A loan is returned to accrual status when principal and interest are no longer past due and collectability is probable, typically after a minimum of six consecutive months of performance. Payments received on impaired accruing or delinquent loans are applied to interest income as accrued.

The following table summarizes the Corporation’s non-accrual loans by loan class as of the periods indicated:

	March 31, 2016	December 31, 2015
Commercial and industrial loans	$3,694	$ 4,634
Agriculture production financing and other loans to farmers	1,535	827
Real estate Loans:		
Construction	731	736
Commercial and farmland	16,440	11,277
Residential	11,674	11,818
Home Equity	2,449	1,952
Individuals' loans for household and other personal expenditures	196	145
Total	$36,719	$ 31,389

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Commercial impaired loans include non-accrual loans, loans accounted for under ASC 310-30, and loans risk graded as substandard, doubtful and loss that were still accruing but deemed impaired according to the guidance set forth in ASC 310. Also included in impaired loans are accruing loans that are contractually past due 90 days or more and troubled debt restructurings.

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

The following tables show the composition of the Corporation's commercial impaired loans by loan class as of the periods indicated:

	March 31, 2016		
	Unpaid Principal Balance	Recorded Investment	Related Allowance
Impaired loans with no related allowance:			
Commercial and industrial loans	$21,751	$ 11,559	
Agriculture production financing and other loans to farmers	724	716	
Real estate Loans:			
Construction	8,482	4,300	
Commercial and farmland	88,293	64,710	
Residential	11,991	7,317	
Home equity	296	225	
Other commercial loans	18		
Total	$131,555	$ 88,827	
Impaired loans with related allowance:			
Commercial and industrial loans	$1,610	$ 1,357	$ 620
Agriculture production financing and other loans to farmers	1,150	1,150	415
Real estate Loans:			
Commercial and farmland	1,907	1,738	242
Residential	946	877	96
Total	$5,613	$ 5,122	$ 1,373
Total Impaired Loans	$137,168	$ 93,949	$ 1,373

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	December 31, 2015		
	Unpaid Principal Balance	Recorded Investment	Related Allowance
Impaired loans with no related allowance:			
Commercial and industrial loans	$22,151	$ 11,669	
Agriculture production financing and other loans to farmers	370	361	
Real estate Loans:			
Construction	4,551	2,336	
Commercial and farmland	95,930	69,024	
Residential	11,262	7,338	
Home equity	297	247	
Other commercial loans	20		
Total	$134,581	$ 90,975	
Impaired loans with related allowance:			
Commercial and industrial loans	$3,043	$ 2,690	$ 1,247
Agriculture production financing and other loans to farmers	466	466	30
Real estate Loans:			
Commercial and farmland	2,144	1,933	392
Residential	2,300	1,463	173
Total	$7,953	$ 6,552	$ 1,842
Total Impaired Loans	$142,534	$ 97,527	$ 1,842

	Three Months Ended March 31, 2016	
	Average Recorded Investment	Interest Income Recognized
Impaired loans with no related allowance:		
Commercial and industrial loans	$12,052	$ 109
Agriculture production financing and other loans to farmers	716	1
Real estate Loans:		
Construction	4,262	85
Commercial and farmland	65,461	871
Residential	7,746	58
Home equity	225	
Total	$90,462	$ 1,124
Impaired loans with related allowance:		
Commercial and industrial loans	$1,363	$ 9
Agriculture production financing and other loans to farmers	1,315	
Real estate Loans:		
Commercial and farmland	1,756	
Residential	879	

Total	$5,313	$ 9
Total Impaired Loans	$95,775	$ 1,133

	Three Months Ended March 31, 2015	
	Average Recorded Investment	Interest Income Recognized
Impaired loans with no related allowance:		
Commercial and industrial loans	$16,150	$ 139
Agriculture production financing and other loans to farmers	303	
Real estate Loans:		
Construction	8,542	104
Commercial and farmland	69,036	878
Residential	8,528	48
Home equity	533	3
Total	$103,092	$ 1,172
Impaired loans with related allowance:		
Commercial and industrial loans	$4,379	$ 10
Agriculture production financing and other loans to farmers	3,991	
Real estate Loans:		
Commercial and farmland	3,113	
Residential	1,761	
Total	$13,244	$ 10
Total Impaired Loans	$116,336	$ 1,182

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

The Corporation utilizes a risk grading of pass, special mention, substandard, doubtful and loss to assess the overall credit quality of large commercial loans. All large commercial credit grades are reviewed at a minimum of once a year for pass grade loans. Loans with grades below pass are reviewed more frequently depending on the grade. A description of the general characteristics of these grades is as follows:

- Pass - Loans that are considered to be of acceptable credit quality.
- Special Mention - Loans which possess some credit deficiency or potential weakness, which deserves close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the Corporation's credit position at some future date. Special mention assets are not adversely classified and do not expose the Corporation to sufficient risk to warrant adverse classification. The key distinctions of this category's classification are that it is indicative of an unwarranted level of risk; and weaknesses are considered “potential”, not “defined”, impairments to the primary source of repayment. Examples include businesses that may be suffering from inadequate management, loss of key personnel or significant customer or litigation.
- Substandard - A substandard loan is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified have a well-defined weakness that jeopardizes the liquidation of the debt. They are characterized by the distinct possibility that the Corporation will sustain some loss if the deficiencies are not corrected. Other characteristics may include:
  - the likelihood that a loan will be paid from the primary source of repayment is uncertain or financial deterioration is underway and very close attention is warranted to ensure that the loan is collected without loss,
  - the primary source of repayment is gone, and the Corporation is forced to rely on a secondary source of repayment, such as collateral liquidation or guarantees,
  - loans have a distinct possibility that the Corporation will sustain some loss if deficiencies are not corrected,
  - unusual courses of action are needed to maintain a high probability of repayment,
  - the borrower is not generating enough cash flow to repay loan principal; however, it continues to make interest payments,
  - the Corporation is forced into a subordinated or unsecured position due to flaws in documentation,
  - loans have been restructured so that payment schedules, terms and collateral represent concessions to the borrower when compared to the normal loan terms,
  - the Corporation is seriously contemplating foreclosure or legal action due to the apparent deterioration of the loan, and
  - there is significant deterioration in market conditions to which the borrower is highly vulnerable.

- Doubtful - Loans that have all of the weaknesses of those classified as Substandard. However, based on currently existing facts, conditions and values, these weaknesses make full collection of principal highly questionable and improbable. Other credit characteristics may include the primary source of repayment is gone or there is considerable doubt as to the quality of the secondary sources of repayment. The possibility of loss is high, but because of certain important pending factors that may strengthen the loan, loss classification is deferred until the exact status of repayment is known.

- Loss – Loans that are considered uncollectible and of such little value that continuing to carry them as an asset is not warranted. Loans will be classified as Loss when it is neither practical not desirable to defer writing off or reserving all or a portion of a basically worthless asset, even though partial recovery may be possible at some time in the future.

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The following tables summarize the credit quality of the Corporation's loan portfolio, by loan class for the periods indicated. Consumer non-performing loans include accruing consumer loans 90 plus days delinquent and consumer non-accrual loans. The entire balance of a loan is considered delinquent if the minimum payment contractually required to be made is not received by the specified date. Loans that evidenced deterioration of credit quality since origination and it was probable, at acquisition, that all contractually required payments would not be collected are included in the applicable categories below.

	March 31, 2016							
	Commercial Pass	Commercial Special Mention	Commercial Substandard	Commercial Doubtful	Commercial Loss	Consumer Performing	Consumer Non-Performing	Total
Commercial and industrial loans	$984,052	$46,952	$29,555					$1,060,559
Agriculture production financing and other loans to farmers	48,604	22,829	20,704					92,137
Real estate Loans:								
Construction	365,808	4,021	3,441			$18,272	$ 79	391,621
Commercial and farmland	1,669,322	55,336	81,737					1,806,395
Residential	158,931	8,095	10,706			584,262	7,598	769,592
Home equity	7,164	72	568			343,812	2,330	353,946
Individuals' loans for household and other personal expenditures						73,322	300	73,622
Lease financing receivables, net of unearned income	371		90					461
Other commercial loans	161,564	10						161,574
Loans	$3,395,816	$137,315	$146,801			$1,019,668	$ 10,307	$4,709,907

	December 31, 2015							
	Commercial Pass	Commercial Special Mention	Commercial Substandard	Commercial Doubtful	Commercial Loss	Consumer Performing	Consumer Non-Performing	Total
Commercial and industrial loans	$962,340	$48,432	$45,984	$ 319				$1,057,075
Agriculture production financing and other loans	77,884	6,665	13,162					97,711

to farmers								
Real estate Loans:								
Construction	345,449	1,271	1,790			$ 18,114	$ 80	366,704
Commercial and farmland	1,679,141	46,442	77,338					1,802,921
Residential	171,576	3,107	10,428			593,533	7,461	786,105
Home equity	8,218	48	600			337,718	2,029	348,613
Individuals' loans for household and other personal expenditures						74,491	226	74,717
Lease financing receivables, net of unearned income	495		93					588
Other commercial loans	159,388							159,388
Loans	$ 3,404,491	$ 105,965	$ 149,395	$ 319		$ 1,023,856	$ 9,796	$ 4,693,822

The tables below show a past due aging of the Corporation’s loan portfolio, by loan class, as of March 31, 2016, and December 31, 2015.

	March 31, 2016						
	Current	30-59 Days Past Due	60-89 Days Past Due	Loans > 90 Days And Accruing	Non-Accrual	Total Past Due & Non-Accrual	Total
Commercial and industrial loans	$ 1,054,549	$ 2,017	$ 239	$ 60	$ 3,694	$ 6,010	$ 1,060,559
Agriculture production financing and other loans to farmers	90,452	150			1,535	1,685	92,137
Real estate Loans:							
Construction	385,222	5,668			731	6,399	391,621
Commercial and farmland	1,788,591	1,355	9		16,440	17,804	1,806,395
Residential	753,121	3,565	539	693	11,674	16,471	769,592
Home equity	349,986	1,298	107	106	2,449	3,960	353,946
Individuals' loans for household and other personal expenditures	73,053	168	101	104	196	569	73,622
Lease financing receivables, net of unearned income	461						461
Other commercial loans	161,574						161,574
Loans	$ 4,657,009	$ 14,221	$ 995	$ 963	$ 36,719	$ 52,898	$ 4,709,907

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	December 31, 2015						
	Current	30-59 Days Past Due	60-89 Days Past Due	Loans > 90 Days And Accruing	Non-Accrual	Total Past Due & Non-Accrual	Total
Commercial and industrial loans	$1,052,275	$166			$ 4,634	$ 4,800	$1,057,075
Agriculture production financing and other loans to farmers	96,884				827	827	97,711
Real estate Loans:							
Construction	362,084	3,884			736	4,620	366,704
Commercial and farmland	1,786,092	5,552			11,277	16,829	1,802,921
Residential	765,634	6,090	$2,061	$ 502	11,818	20,471	786,105
Home equity	344,344	1,433	560	324	1,952	4,269	348,613
Individuals' loans for household and other personal expenditures	73,990	445	56	81	145	727	74,717
Lease financing receivables, net of unearned income	588						588
Other commercial loans	159,324		64			64	159,388
Loans	$4,641,215	$17,570	$2,741	$ 907	$ 31,389	$ 52,607	$4,693,822

See the information regarding the analysis of loan loss experience in the "LOAN QUALITY/PROVISION FOR LOAN LOSSES" section of Management’s Discussion and Analysis of Financial Condition and Results of Operations included as ITEM 2 of this Quarterly Report on Form 10-Q.

On occasion, borrowers experience declines in income and cash flow. As a result, these borrowers seek to reduce contractual cash outlays including debt payments. Concurrently, in an effort to preserve and protect its earning assets, specifically troubled loans, the Corporation works to maintain its relationship with certain customers who are experiencing financial difficulty by contractually modifying the borrower's debt agreement with the Corporation. In certain loan restructuring situations, the Corporation may grant a concession to a debtor experiencing financial difficulty, resulting in a trouble debt restructuring. A concession is deemed to be granted when, as a result of the restructuring, the Corporation does not expect to collect all original amounts due, including interest accrued at the original contract rate. If the payment of principal at original maturity is primarily dependent on the value of collateral, the current value of the collateral is considered in determining whether the principal will be paid.

The following tables summarize troubled debt restructurings in the Corporation's loan portfolio that occurred during the periods indicated:

	Three Months Ended March 31, 2016		
	Pre-Modification Recorded Balance	Post-Modification Recorded Balance	Number of Loans

Commercial and industrial loans	$260	$ 260	3
Agriculture production financing and other loans to farmers	465	331	2
Real estate Loans:			
Commercial and farmland	352	352	1
Residential	113	133	3
Individuals' loans for household and other personal expenditures	13	13	1
Total	$1,203	$ 1,089	10

	Three Months Ended March 31, 2015		
	Pre-Modification Recorded Balance	Post-Modification Recorded Balance	Number of Loans
Commercial and industrial loans	$2,362	$ 1,361	4
Real estate Loans:			
Construction	79	80	1
Commercial and farmland		1,743	1
Residential	24	24	1
Total	$2,465	$ 3,208	7

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The following tables summarize the recorded investment of troubled debt restructurings, by modification type, that occurred during the periods indicated:

	Three Months Ended March 31, 2016			
	Term Modification	Rate Modification	Combination	Total Modification
Commercial and industrial loans			$ 260	$ 260
Agriculture production financing and other loans to farmers		$ 331		331
Real estate Loans:				
Commercial and farmland			351	351
Residential		123		123
Individuals' loans for household and other personal expenditures		13		13
Total		$ 467	$ 611	$ 1,078

	Three Months Ended March 31, 2015			
	Term Modification	Rate Modification	Combination	Total Modification
Commercial and industrial loans	$253		$ 1,079	$ 1,332
Real estate Loans:				
Construction	2			2
Commercial and farmland	1,548			1,548
Residential		$ 26		26
Total	$1,803	$ 26	$ 1,079	$ 2,908

Agriculture production financing and other loans to farmers made up 48 percent of the post-modification balance of troubled debt restructured loans made in the three months ended March 31, 2016.

The following tables summarize troubled debt restructures that occurred during the twelve months ended March 31, 2016 and March 31, 2015, that subsequently defaulted during the period indicated and remained in default at period end. For purposes of this discussion, a loan is considered in default if it is 30 or more days past due.

	Three Months Ended March 31, 2016	
	Number of Loans	Recorded Balance
Commercial and industrial loans	3	$ 260
Real estate Loans:		
Commercial and farmland	1	717

Total	4	$	977

	Three Months Ended March 31, 2015	
	Number of Loans	Recorded Balance
Home Equity	1	$ 6
Total	1	$ 6

For potential consumer loan restructures, impairment evaluation occurs prior to modification. Any subsequent impairment is typically addressed through the charge off process, or may be addressed through a specific reserve. Consumer troubled debt restructurings are generally included in the general historical allowance for loan loss at the post modification balance. Consumer non-accrual and delinquent troubled debt restructurings are also considered in the calculation of the non-accrual and delinquency trend environmental allowance allocation. Consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process totaled $3,208,000 and $1,391,000 at March 31, 2016 and December 31, 2015, respectively.

Commercial troubled debt restructured loans risk graded special mention, substandard, doubtful and loss are individually evaluated for impairment under ASC 310. Any resulting specific reserves are included in the allowance for loan losses. Commercial 30 - 89 day delinquent troubled debt restructurings are included in the calculation of the delinquency trend environmental allowance allocation. All commercial non-impaired loans, including non-accrual and 90+ day delinquents, are included in the ASC 450 loss migration analysis.

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

NOTE 5

ACCOUNTING FOR CERTAIN LOANS ACQUIRED IN A PURCHASE

The acquired loans detailed in the tables below are included in NOTE 4. LOANS AND ALLOWANCE, in the Notes to Consolidated Condensed Financial Statements of this Quarterly Report on Form 10-Q. As described in NOTE 4, loans purchased after December 31, 2008 are recorded at the acquisition date fair value, which could result in a fair value discount or premium. Purchased loans with evidence of credit deterioration since origination and for which it is probable at the date of acquisition that the acquirer will not collect all contractually required principal and interest payments are accounted for under ASC 310-30, Loans Acquired with Deteriorated Credit Quality. The difference between contractually required payments and the cash flows expected to be collected at acquisition is referred to as the nonaccretable portion of the fair value discount or premium. The accretable portion of the fair value discount or premium is the difference between the expected cash flows and the net present value of expected cash flows, with such difference accreted into earnings over the term of the loans. All other loans not accounted for under ASC 310-30 are accounted for under ASC 310-20.

The following table includes the outstanding balance and carrying amount of all acquired loans which were included in the Corporation's balance sheet at March 31, 2016, and December 31, 2015.

	March 31, 2016					
	Ameriana	C Financial	Community	CFS	SCB	Total
Commercial and industrial loans	$23,363	$99	$7,224	$50,476	$4,351	$85,513
Agricultural production financing and other loans to farmers			2,472		1,263	3,735
Real estate loans:						
Construction	30,414	6,928	9,681	862		47,885
Commercial and farmland	131,371	25,729	47,190	175,692	12,494	392,476
Residential	116,116	52,720	19,212	113,633	5,645	307,326
Home Equity	13,390	8,824	7,445	30,705	13,000	73,364
Individuals' loans for household and other personal expenditures	1,433	8	306	348	43	2,138
Other commercial loans	1,840			70		1,910
Total	$317,927	$94,308	$93,530	$371,786	$36,796	$914,347
Carrying Amount	$304,615	$92,097	$87,523	$353,882	$32,390	$870,507
Allowance			105	50		155
Carrying Amount Net of Allowance	$304,615	$92,097	$87,418	$353,832	$32,390	$870,352

	December 31, 2015					
	Ameriana	C Financial	Community	CFS	SCB	Total

Commercial and industrial loans	$21,888	$ 104	$ 6,769	$52,060	$4,620	$85,441
Agricultural production financing and other loans to farmers			1,761		1,288	3,049
Real estate loans:						
Construction	23,365	6,214	10,436	976		40,991
Commercial and farmland	144,514	27,838	49,997	189,372	13,293	425,014
Residential	123,231	55,856	21,886	118,105	6,063	325,141
Home Equity	14,261	9,144	8,231	31,986	13,431	77,053
Individuals' loans for household and other personal expenditures	1,731	10	461	443	48	2,693
Other commercial loans	1,928			72		2,000
Total	$330,918	$99,166	$ 99,541	$393,014	$38,743	$961,382