FIRST MID ILLINOIS BANCSHARES INC
Form 10-Q
November 09, 2016

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

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 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 0-13368

FIRST MID-ILLINOIS 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)

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 website, 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, 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 [ ] Accelerated filer [X]

Non-accelerated filer [ ] (Do not check if a 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 Act). [ ] Yes [X] No

As of November 9, 2016, 12,457,462 common shares, $4.00 par value, were outstanding.

PART I

ITEM 1. FINANCIAL STATEMENTS
First Mid-Illinois Bancshares, Inc.
Condensed Consolidated Balance Sheets

(In thousands, except share data)	(Unaudited) September 30, 2016	December 31, 2015
Assets		
Cash and due from banks:		
Non-interest bearing	$ 57,244	$ 42,570
Interest bearing	51,675	72,722
Federal funds sold	14,118	492
Cash and cash equivalents	123,037	115,784
Certificates of deposit investments	26,270	25,000
Investment securities:		
Available-for-sale, at fair value	556,626	518,848
Held-to-maturity, at amortized cost (estimated fair value of $102,648 and $85,737 at September 30, 2016 and December 31, 2015, respectively)	101,679	85,208
Loans held for sale	3,584	968
Loans	1,803,161	1,280,921
Less allowance for loan losses	(16,161)	(14,576)
Net loans	1,787,000	1,266,345
Interest receivable	10,271	8,085
Other real estate owned	2,096	477
Premises and equipment, net	40,695	31,340
Goodwill, net	57,791	41,007
Intangible assets, net	13,418	8,997
Bank owned life insurance	41,031	—
Other assets	20,450	12,440
Total assets	$ 2,783,948	$ 2,114,499
Liabilities and Stockholders' Equity		
Deposits:		
Non-interest bearing	$ 431,480	$ 342,636
Interest bearing	1,833,779	1,389,932
Total deposits	2,265,259	1,732,568
Securities sold under agreements to repurchase	127,432	128,842
Interest payable	593	356
FHLB borrowings	50,109	20,000
Other borrowings	22,000	—
Junior subordinated debentures	23,892	20,620
Dividends payable	—	550
Other liabilities	7,398	6,554
Total liabilities	2,496,683	1,909,490
Stockholders' Equity:		
Convertible preferred stock, no par value; authorized 1,000,000 shares; issued 0 shares in 2016 and 5,500 shares in 2015	—	27,400
Common stock, $4 par value; authorized 18,000,000 shares; issued 13,007,205 and 9,003,710 shares in 2016 and 2015, respectively	54,029	38,015
Additional paid-in capital	158,356	79,626

Retained earnings	81,412	71,712
Deferred compensation	3,056	3,245
Accumulated other comprehensive income	6,076	723
Less treasury stock at cost, 549,743 shares in 2016 and 2015	(15,664)	(15,712)
Total stockholders’ equity	287,265	205,009
Total liabilities and stockholders’ equity	$ 2,783,948	$ 2,114,499

See accompanying notes to unaudited condensed consolidated financial statements.

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

(In thousands, except per share data)	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Interest income:				
Interest and fees on loans	$15,294	$12,198	$42,496	$34,974
Interest on investment securities	3,229	2,682	9,622	7,473
Interest on certificates of deposit investments	78	6	234	6
Interest on federal funds sold	7	—	8	—
Interest on deposits with other financial institutions	15	57	125	101
Total interest income	18,623	14,943	52,485	42,554
Interest expense:				
Interest on deposits	623	645	1,777	1,690
Interest on securities sold under agreements to repurchase	23	14	62	43
Interest on FHLB borrowings	150	155	465	465
Interest on other borrowings	42	1	45	14
Interest on subordinated debentures	162	132	456	390
Total interest expense	1,000	947	2,805	2,602
Net interest income	17,623	13,996	49,680	39,952
Provision for loan losses	1,081	481	1,927	889
Net interest income after provision for loan losses	16,542	13,515	47,753	39,063
Other income:				
Trust revenues	774	795	2,549	2,575
Brokerage commissions	526	329	1,440	913
Insurance commissions	738	459	2,806	1,568
Service charges	1,824	1,536	4,977	4,003
Securities gains, net	466	1	1,130	231
Mortgage banking revenue, net	382	172	715	549
ATM / debit card revenue	1,457	1,200	4,418	3,224
Bank owned life insurance	201	—	384	—
Other	530	517	1,582	1,282
Total other income	6,898	5,009	20,001	14,345
Other expense:				
Salaries and employee benefits	7,844	6,522	23,293	18,875
Net occupancy and equipment expense	2,864	2,424	8,389	6,329
Net other real estate owned (income) expense	32	(1)	23	—
FDIC insurance	294	236	841	641
Amortization of intangible assets	455	155	1,312	466
Stationery and supplies	221	180	612	475
Legal and professional	713	660	2,414	1,842
Marketing and donations	285	296	1,486	790
Other	2,612	2,410	6,264	5,498
Total other expense	15,320	12,882	44,634	34,916
Income before income taxes	8,120	5,642	23,120	18,492
Income taxes	2,812	1,979	8,077	6,634
Net income	5,308	3,663	15,043	11,858
Dividends on preferred shares	—	550	825	1,650

Net income available to common stockholders	$5,308	$3,113	$14,218	$10,208
Per share data:				
Basic net income per common share available to common stockholders	$0.51	$0.37	$1.52	$1.35
Diluted net income per common share available to common stockholders	$0.51	$0.37	$1.50	$1.33
Cash dividends declared per common share	$0.16	$—	$0.46	$0.29

See accompanying notes to unaudited condensed consolidated financial statements.

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

(in thousands)	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Net income	$5,308	$3,663	$15,043	$11,858
Other Comprehensive Income				
Unrealized gains on available-for-sale securities, net of taxes of $(690) and $(1,709) for three months ended September 30, 2016 and 2015, respectively and $(3,698) and $(1,662) for nine months ended September 30, 2016 and 2015, respectively.	1,082	2,676	5,792	2,601
Amortized holding losses on held-to-maturity securities transferred from available-for-sale, net of taxes of $(11) and $(51) for three months ended September 30, 2016 and 2015, respectively and $(161) and $(176) for nine months ended September 30, 2016 and 2015, respectively.	16	80	251	276
Less: reclassification adjustment for realized gains included in net income net of taxes of $182 and $0 for three months ended September 30, 2016 and 2015, respectively and $440 and $90 for nine months ended September 30, 2016 and 2015, respectively.	(284)	(1)	(690)	(141)
Other comprehensive income, net of taxes	814	2,755	5,353	2,736
Comprehensive income	$6,122	$6,418	$20,396	$14,594

See accompanying notes to unaudited condensed consolidated financial statements.

First Mid-Illinois Bancshares, Inc.

Condensed Consolidated Statements of Cash Flows (unaudited)	Nine months ended September 30,	
(In thousands)	2016	2015
Cash flows from operating activities:		
Net income	$15,043	$11,858
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,927	889
Depreciation, amortization and accretion, net	5,592	2,908
Change in cash surrender value of bank owned life insurance	(384)	—
Stock-based compensation expense	268	264
Gains on investment securities, net	(1,130)	(231)
Gain on sales of other real property owned, net	(5)	(32)
Donation of building	653	—
Loss on write down of fixed assets	26	166
Gains on sale of loans held for sale, net	(805)	(586)
Increase in accrued interest receivable	(347)	(298)
Decrease in accrued interest payable	(36)	(29)
Origination of loans held for sale	(57,199)	(43,106)
Proceeds from sale of loans held for sale	55,388	44,304
Increase in other assets	(2,713)	(2,327)
Decrease in other liabilities	(1,036)	(1,500)
Net cash provided by operating activities	15,242	12,280
Cash flows from investing activities:		
Proceeds from maturities of certificates of deposit investments	13,618	—
Purchases of certificates of deposit investments	(12,958)	(12,930)
Proceeds from sales of securities available-for-sale	68,726	9,453
Proceeds from maturities of securities available-for-sale	91,899	55,057
Proceeds from maturities of securities held-to-maturity	55,500	10,000
Purchases of securities available-for-sale	(84,102)	(168,820)
Purchases of securities held-to-maturity	(71,557)	(10,000)
Net increase in loans	(84,432)	(23,068)
Sale of premises and equipment	147	—
Purchases of premises and equipment	(449)	(1,380)
Proceeds from sales of other real property owned	488	113
Investment in bank owned life insurance	(25,000)	—
Cash received related to acquisition, net of cash and cash equivalents acquired	36,774	279,468
Net cash (used in) provided by investing activities	(11,346)	137,893
Cash flows from financing activities:		
Net (decrease) increase in deposits	(3,996)	6,136
Decrease in repurchase agreements	(24,673)	(17,167)
Proceeds from FHLB advances	20,000	5,000
Repayment of FHLB advances	(5,000)	(5,000)
Proceeds from short-term debt	7,000	2,000
Proceeds from long-term debt	15,000	—
Repayment of short-term debt	—	(2,000)
Proceeds from issuance of common stock	97	28,165
Common stock issuance costs	(230)	—
Purchase of treasury stock	—	(1,041)

Dividends paid on preferred stock	(1,286)	(1,001)
Dividends paid on common stock	(3,555)	(1,532)
Net cash provided by financing activities	3,357	13,560
Increase in cash and cash equivalents	7,253	163,733
Cash and cash equivalents at beginning of period	115,784	51,730
Cash and cash equivalents at end of period	$123,037	$215,463

5

First Mid-Illinois Bancshares, Inc.

Condensed Consolidated Statements of Cash Flows (unaudited)	Nine months ended September 30,	
(In thousands)	2016	2015
Supplemental disclosures of cash flow information		
Cash paid during the period for:		
Interest	$2,568	$2,506
Income taxes	9,335	6,961
Supplemental disclosures of noncash investing and financing activities		
Loans transferred to other real estate owned	115	167
Dividends reinvested in common stock	1,052	597
Net tax benefit related to option and deferred compensation plans	140	85
Supplemental disclosure of purchase of capital stock of First Clover Leaf		
Fair value of assets acquired	$668,905	$—
Considered paid:		
Cash paid	22,545	—
Common stock issued	65,926	—
Total consideration paid	88,471	—
Fair value of liabilities assumed	$580,434	$—

See accompanying notes to unaudited condensed consolidated financial statements.

Notes to Condensed Consolidated Financial Statements
(unaudited)

Note 1 -- Basis of Accounting and Consolidation

The unaudited condensed consolidated financial statements include the accounts of First Mid-Illinois Bancshares, Inc. (“Company”) and its wholly-owned subsidiaries: First Mid-Illinois Bank & Trust, N.A. (“First Mid Bank”), First Clover Leaf Bank, N.A. ("First Clover Leaf Bank"), Mid-Illinois Data Services, Inc. (“MIDS”) and The Checkley Agency, Inc. doing business as First Mid Insurance Group (“First Mid Insurance”). All significant intercompany balances and transactions have been eliminated in consolidation. The financial information reflects all adjustments which, in the opinion of management, are necessary for a fair presentation of the results of the interim periods ended September 30, 2016 and 2015, and all such adjustments are of a normal recurring nature. Certain amounts in the prior year’s consolidated financial statements have been reclassified to conform to the September 30, 2016 presentation and there was no impact on net income or stockholders’ equity. The results of the interim period ended September 30, 2016 are not necessarily indicative of the results expected for the year ending December 31, 2016. The Company operates as a one-segment entity for financial reporting purposes.

The 2015 year-end consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

The unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X and do not include all of the information required by U.S. generally accepted accounting principles (“GAAP”) for complete financial statements and related footnote disclosures although the Company believes that the disclosures made are adequate to make the information not misleading. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s 2015 Annual Report on Form 10-K.

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.

Branch Purchase and Assumption Agreement

On January 30, 2015, First Mid Bank, a wholly-owned subsidiary of the Company, entered into a Purchase and Assumption Agreement (the “Purchase Agreement”) with Old National Bank, a national banking association having its principal office in Evansville, Indiana, pursuant to which First Mid Bank purchased certain assets and assume certain liabilities of 12 branch offices of Old National Bank in Southern Illinois (the “ONB Branches”). Pursuant to the terms of the Purchase Agreement, First Mid Bank agreed to assume certain deposit liabilities and to acquire certain loans, as well as cash, real property, furniture, and other fixed operating assets associated with the ONB Branches. The book value of loan and deposit balances assumed was approximately $156 million and $453 million, respectively. First Mid Bank also agreed to assume certain leases, and entered into certain subleases, relating to the ONB Branches. The completion of the Purchase was subject to regulatory approval required by the Office of the Comptroller of the Currency and normal customary closing conditions, including First Mid Bank, in conjunction with the Company, obtaining financing in connection with the acquisition. Following satisfaction of these conditions, First Mid Bank and Old National Bank closed the acquisition on August 14, 2015.

Capital Raise

On June 18, 2015, the Company entered into a securities purchase agreement with a limited number of institutional investors to sell, and accepted from certain other accredited investors, including certain directors of the Company, subscriptions for, an aggregate total of 1,392,859 newly issued shares of the Company's common stock at a purchase price of $21.00 per share, for an aggregate gross purchase price of approximately $29,250,039 (the "Offering"). The Offering closed on June 19, 2015. The Company used the net proceeds of the Offering to provide capital support for the purchase of the ONB Branches and for general corporate purposes.

Acquisition of Illiana

On December 1, 2015, First Mid Insurance Group, a wholly-owned subsidiary of the Company, acquired substantially all of the assets of Illiana, a health plan and life insurance and annuities business.

Agreement and Plan of Merger

On April 26, 2016, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") with First Clover Leaf Financial Corp., a Maryland corporation ("First Clover Leaf"), pursuant to which, amongst other things, the Company agreed to acquire 100% of the issued and outstanding shares of First Clover Leaf pursuant to a business combination whereby First Clover Leaf would merge with and into the Company, with the Company as the surviving entity (the "Merger").

On September 8, 2016, the effective time of the Merger, 25% of the shares of First Clover Leaf common stock issued and outstanding immediately prior to the effective time of the Merger converted into the right to receive $12.87 per share, for an approximate aggregate total of $22,545,000, and 75% of the shares of First Clover Leaf common stock issued and outstanding immediately prior to the effective time of the Merger converted into the right to receive 0.495 shares of the Company’s common stock, par value $4.00 per share, for an approximate aggregate total of 2,600,616 shares of the Company’s common stock. Cash in lieu of fractional shares of Company common stock were issued in connection with the Merger.

Series C Convertible Preferred Stock

During 2011, the Company accepted from certain accredited investors, including directors, executive officers, and certain major customers and holders of the Company’s common stock (collectively, the “Investors”), subscriptions for the purchase of $27,500,000, in the aggregate, of a newly authorized series of preferred stock designated as Series C 8% Non-Cumulative Perpetual Convertible Preferred Stock (the “Series C Preferred Stock”). The Series C Preferred Stock had an issue price of $5,000 per share and no par value per share. The Series C Preferred Stock was issued in a private placement exempt from registration pursuant to Regulation D of the Securities Act of 1933, as amended.

On May 16, 2016, the Company completed the mandatory conversion of the Series C Preferred Stock. The conversion ratio for each share of the Series C Preferred Stock was computed by dividing $5,000 (the issuance price per share of the Series C Preferred Stock) by $20.29 (then current conversion price). The conversion ratio, therefore, was 246.427 shares of the Company's common stock for each share of Series C Preferred Stock. This resulted in the issuance of approximately 1,355,319 shares of common stock in the aggregate. As a result of the conversion, dividends ceased to accrue on the Series C Preferred Stock and certificates for shares of Series C Preferred Stock only represent the right to receive the appropriate number of shares of common stock, together with net accrued but unpaid dividends on the Series C Preferred Stock, and cash in lieu of fractional share interests.

Rights Agreement

On January 21, 2015, the Company entered into an Amendment No. 1 to the Rights Agreement (the "Rights Agreement"), dated as of September 22, 2009, by and between the Company and Computershare Trust Company, N.A., as rights agent. This amendment accelerated the expiration of the Company's common stock purchase rights (the “Rights”) from 5:00 p.m., Mattoon, Illinois time, on September 22, 2019, to 5:00 p.m., Mattoon, Illinois time, on January 21, 2015, and had the effect of terminating the Rights Agreement on that date. At the time of the termination of the Rights Agreement, all of the Rights distributed to holders of the Company's common stock pursuant to the Rights Agreement expired.

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.

Stock Plans

At the Annual Meeting of Stockholders held May 23, 2007, the stockholders approved the First Mid-Illinois Bancshares, Inc. 2007 Stock Incentive Plan ("SI Plan"). The SI Plan was implemented to succeed the Company's 1997 Stock Incentive Plan, which had a ten-year term that expired October 21, 2007. 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.

On September 27, 2011, the Board of Directors passed a resolution relating to the SI Plan whereby they authorized and approved the Executive Long-Term Incentive Plan ("LTIP"). The LTIP was implemented to provide methodology for granting Stock Awards and Stock Unit Awards to select senior executives of the Company or any Subsidiary.

A maximum of 300,000 shares of common stock may be issued under the SI Plan. As of September 30, 2016, the Company had awarded 59,500 shares as stock options under the SI plan. There were no stock options awarded in 2016 or 2015. The Company awarded 12,925 shares as Stock Unit Awards and 16,604 as 50% Stock Awards and 50% Stock Unit Awards during 2015 and 2014, respectively, under the SI plan.

Accumulated Other Comprehensive Income

The components of accumulated other comprehensive income included in stockholders' equity as of September 30, 2016 and December 31, 2015 are as follows (in thousands):

	Unrealized Gain (Loss) on Securities	Securities with Other-Than-Temporary Impairment Losses	Total
September 30, 2016			
Net unrealized gains on securities available-for-sale	$ 11,793	$ —	$ 11,793
Unamortized losses on held-to-maturity securities transferred from available-for-sale	(421)	—	(421)
Securities with other-than-temporary impairment losses	—	(1,414)	(1,414)
Tax benefit (expense)	(4,433)	551	(3,882)
Balance at September 30, 2016	$ 6,939	$ (863)	$ 6,076
December 31, 2015			
Net unrealized gains on securities available-for-sale	$ 3,243	$ —	$ 3,243
Unamortized losses on held-to-maturity securities transferred from available-for-sale	(834)	—	(834)
Securities with other-than-temporary impairment losses	—	(1,224)	(1,224)
Tax benefit (expense)	(939)	477	(462)
Balance at December 31, 2015	$ 1,470	$ (747)	$ 723

Amounts reclassified from accumulated other comprehensive income and the affected line items in the statements of income during the nine months ended September 30, 2016 and 2015, were as follows (in thousands):

	Amounts Reclassified from Other Comprehensive Income				
	Three months ended September 30,		Nine months ended September 30,		Affected Line Item in the Statements of Income
	2016	2015	2016	2015	
Unrealized gains on available-for-sale securities	466	1	1,130	231	Securities gains, net (Total reclassified amount before tax)
	(182)	—	(440)	(90)	Income taxes
Total reclassifications out of accumulated other comprehensive income	$284	$ 1	$690	$141	Net reclassified amount

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

Adoption of New Accounting Guidance

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 requires 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 is effective for annual periods beginning after December 15, 2019, including interim periods within those fiscal years. Entities will apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. Management is evaluating the impact ASU 2016-13 will have on the Company’s financial statements.
Accounting Standards Update 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting (“ASU 2016-09”). In March 2016, FASB issued ASU 2016-09. The objective of the simplification initiative is to identify, evaluate, and improve areas of US GAAP for which cost and complexity can be reduced while maintaining or improving the usefulness of the information provided to users of financial statements. The areas for simplification involve several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. Amendments related to the timing of when excess tax benefits are recognized, minimum statutory withholding requirements, forfeitures, and intrinsic value should be applied using a modified retrospective transition method by means of a cumulative-effect adjustment to equity as of the beginning of the period in which the guidance is adopted. The new guidance will be effective for public companies for reporting periods beginning after December 15, 2016, and is not expected to have a significant impact on the Company’s financial statements.

Accounting Standards Update 2016-08, Revenue from Contracts with Customers (Topic 606) (“ASU 2016-08"). In March 2016, the FASB issued ASU 2016-08 which amended the accounting guidance issued by the FASB in May 2014 that revised the criteria for determining when to recognize revenue from contracts with customers and expanded disclosure requirements. The amendment defers the effective date by one year. This accounting guidance can be implemented using either a retrospective method or a cumulative-effect approach. This new guidance will be effective for interim and annual reporting periods beginning after December 15, 2018. Early adoption is permitted but only for interim and annual reporting periods beginning after December 15, 2016. There are many aspects of the new accounting guidance that are still being interpreted, and the FASB has recently issued and proposed updates to certain aspects of the guidance. Management is evaluating the impact of ASU 2016-08 will have on the Company’s financial statements.

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 will be required to 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 will be 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. Early adoption is permitted for all entities. Management is evaluating the impact ASU 2016-02 will have on the Company's financial statements.

Accounting Standards Update 2016-01, Financial Instruments (Topic 825): Recognition and Measurement of Financial Assets and Financial Liabilities ("ASU 2016-01"). In January 2016, FASB issued ASU 2016-01 which amends prior guidance to require an entity to measure its equity investments (except those accounted for under the equity method of accounting) to be measured at fair value with changes in fair value recognized in net income. An entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar investment of same issuer. The new guidance simplifies the impairment assessment of equity investments without readily determinable fair values, requires public entities to use the exit price notion when measuring fair value of financial instruments for disclosure purposes, requires an entity to present separately in other comprehensive income the portion of the total change in fair value of a liability resulting from changes in the instrument-specific credit risk when the entity has selected fair value option for financial instruments and requires separate presentation of financial assets and liabilities by measurement category and form of financial asset. The new guidance will be effective for reporting periods after January 1, 2018 and is not expected to have a significant impact on the Company's financial statements.

Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Topic 606): ("ASU 2014-09"). In May 2014, FASB issued ASU 2014-09 which created a new topic in the FASB Accounting Standards Codification(R) ("ASC"), Topic 606. In addition to superseding and replacing nearly all existing U.S. GAAP revenue recognition guidance, including industry-specific guidance, ASU 2014-09 establishes a new control-based revenue recognition model, changes the basis for deciding when revenue is recognized over time or at a point in time, provides new and more detailed guidance on specific topics and expands and improves disclosures about revenue. In addition, ASU 2014-09 adds a new Subtopic to the ASC, OtherAssets and Deferred Costs: Contracts with Customers ("ASC 340-40"), to provide guidance on costs related to obtaining a contract with a customer and costs incurred in fulfilling a contract with a customer that are not in the scope of another ASC Topic. The new guidance does not apply to certain contracts within the scope of other ASC Topics, such as lease contracts, insurance contracts, financing arrangements, financial instruments, guarantee other than product or service warranties, and non-monetary exchanges between entities in the same line of business to facilitate sales to customers. See ASU 2016-08 for the effective dates.

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, unless anti-dilutive.

The components of basic and diluted net income per common share available to common stockholders for the three and nine-month period ended September 30, 2016 and 2015 were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Basic Net Income per Common Share Available to Common Stockholders:				
Net income	$5,308,000	$3,663,000	$15,043,000	$11,858,000
Preferred stock dividends	—	(550,000)	(825,000)	(1,650,000)
Net income available to common stockholders	$5,308,000	$3,113,000	$14,218,000	$10,208,000
Weighted average common shares outstanding	10,497,072	8,421,397	9,372,547	7,553,468
Basic earnings per common share	$0.51	$0.37	$1.52	$1.35
Diluted Net Income per Common Share Available to Common Stockholders:				
Net income available to common stockholders	$5,308,000	$3,113,000	$14,218,000	$10,208,000
Effect of assumed preferred stock conversion	—	550,000	825,000	1,650,000
Net income applicable to diluted earnings per share	$5,308,000	$3,663,000	$15,043,000	$11,858,000
Weighted average common shares outstanding	10,497,072	8,421,397	9,372,547	7,553,468
Dilutive potential common shares:				
Assumed conversion of stock options	1,742	—	1,945	—
Restricted stock awarded	5,232	7,788	5,232	7,788
Assumed conversion of preferred stock	—	1,355,348	677,674	1,355,348
Dilutive potential common shares	6,974	1,363,136	684,851	1,363,136
Diluted weighted average common shares outstanding	10,504,046	9,784,533	10,057,398	8,916,604
Diluted earnings per common share	$0.51	$0.37	$1.50	$1.33

The following shares were not considered in computing diluted earnings per share for the three and nine-month periods ended September 30, 2016 and 2015 because they were anti-dilutive:

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Stock options to purchase shares of common stock	24,500	45,500	24,500	45,500

Note 3 -- Investment Securities

The amortized cost, gross unrealized gains and losses and estimated fair values for available-for-sale and held-to-maturity securities by major security type at September 30, 2016 and December 31, 2015 were as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
September 30, 2016				
Available-for-sale:				
U.S. Treasury securities and obligations of U.S. government corporations & agencies	$ 48,546	$ 190	$ —	$ 48,736
Obligations of states and political subdivisions	155,715	5,297	(93)	160,919
Mortgage-backed securities: GSE residential	334,872	6,420	(102)	341,190
Trust preferred securities	3,075	—	(1,414)	1,661
Other securities	4,039	87	(6)	4,120
Total available-for-sale	$ 546,247	$ 11,994	$ (1,615)	$ 556,626
Held-to-maturity:				
U.S. Treasury securities and obligations of U.S. government corporations & agencies	$ 101,679	$ 1,033	$ (64)	$ 102,648
December 31, 2015				
Available-for-sale:				
U.S. Treasury securities and obligations of U.S. government corporations & agencies	$ 90,368	$ 41	$ (268)	$ 90,141
Obligations of states and political subdivisions	107,164	3,608	(55)	110,717
Mortgage-backed securities: GSE residential	312,132	1,374	(1,452)	312,054
Trust preferred securities	3,130	—	(1,224)	1,906
Other securities	4,035	29	(34)	4,030
Total available-for-sale	$ 516,829	$ 5,052	$ (3,033)	$ 518,848
Held-to-maturity:				
U.S. Treasury securities and obligations of U.S. government corporations & agencies	$ 85,208	$ 743	$ (214)	$ 85,737

Trust preferred securities represents one trust preferred pooled security issued by First Tennessee Financial ("FTN"). The unrealized loss of this security, which has a remaining maturity of twenty-one years, is primarily due to its long-term nature, a lack of demand or inactive market for the security, and concerns regarding the underlying financial institutions that have issued the trust preferred security. See the heading "Trust Preferred Securities" for further information regarding this security.

Realized gains and losses resulting from sales of securities were as follows during the nine months ended September 30, 2016 and 2015 (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Gross gains	$ 466	$ 1	$ 1,130	$ 231

Gross losses	—	—	—	—

13

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 September 30, 2016 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	$15,531	$28,563	$4,642	$—	$48,736
Obligations of state and political subdivisions	11,722	85,629	61,104	2,464	160,919
Mortgage-backed securities: GSE residential	1,488	321,587	18,115	—	341,190
Trust preferred securities	—	—	—	1,661	1,661
Other securities	—	4,010	—	110	4,120
Total available-for-sale investments	$28,741	$439,789	$83,861	$4,235	$556,626
Weighted average yield	2.34 %	2.35 %	2.63 %	2.22 %	2.39 %
Full tax-equivalent yield	3.33 %	2.69 %	3.99 %	3.09 %	2.92 %
Held to Maturity:					
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$72,030	$24,570	$5,079	$—	$101,679
Weighted average yield	1.80 %	2.11 %	2.06 %	— %	1.89 %
Full tax-equivalent yield	1.80 %	2.11 %	2.06 %	— %	1.89 %

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 35% 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 September 30, 2016.

Investment securities carried at approximately $470 million and $404 million at September 30, 2016 and December 31, 2015, 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 September 30, 2016 and December 31, 2015 (in thousands):

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
September 30, 2016						
Available-for-sale:						
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$—	$ —	$—	$ —	$—	$ —
Obligations of states and political subdivisions	13,235	(93)	—	—	13,235	(93)
Mortgage-backed securities: GSE residential	7,381	(17)	6,309	(85)	13,690	(102)
Trust preferred securities	—	—	1,661	(1,414)	1,661	(1,414)
Other securities	—	—	1,994	(6)	1,994	(6)
Total	$20,616	$ (110)	$9,964	$ (1,505)	$30,580	$ (1,615)
Held-to-maturity:						
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$14,928	$ (64)	$—	$ —	$14,928	$ (64)
December 31, 2015						
Available-for-sale:						
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$34,942	$ (142)	$12,971	$ (126)	$47,913	$ (268)
Obligations of states and political subdivisions	3,168	(32)	979	(23)	4,147	(55)
Mortgage-backed securities: GSE residential	164,249	(841)	20,011	(611)	184,260	(1,452)
Trust preferred securities	—	—	1,906	(1,224)	1,906	(1,224)
Other securities	1,966	(34)	—	—	1,966	(34)
Total	$204,325	$ (1,049)	$35,867	$ (1,984)	$240,192	$ (3,033)
Held-to-maturity:						
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$35,845	$ (214)	$—	$ —	$35,845	$ (214)

U.S. Treasury Securities and Obligations of U.S. Government Corporations and Agencies. At September 30, 2016, there were no available-for sale 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, 2015 there were six available-for-sale U.S. Treasury securities and obligations of U.S. government corporations and agencies with a fair value of $12,971,000 and unrealized losses of $126,000 in a continuous unrealized loss position for twelve months or more. At September 30, 2016 and December 31, 2015 there were no held-to-maturity U.S. Treasury securities and obligations of U.S. government corporations and agencies in a continuous unrealized loss position for twelve months or more.

Obligations of states and political subdivisions. At September 30, 2016 there were no obligations of states and political subdivisions in a continuous unrealized loss position for twelve months or more. At December 31, 2015, there were two obligations of states and political subdivisions with a fair value of $979,000 and unrealized losses of $23,000 in a continuous unrealized loss position for twelve months or more.

Mortgage-backed Securities: GSE Residential. At September 30, 2016 there were nine mortgage-backed securities with a fair value of $6,309,000 and unrealized losses of $85,000 in a continuous unrealized loss position for twelve months or more. At December 31, 2015, there were seven mortgage-backed securities with a fair value of $20,011,000 and unrealized losses of $611,000 in a continuous unrealized loss position for twelve months or more.

15

Trust Preferred Securities. At September 30, 2016, there was one trust preferred security with a fair value of $1,661,000 and unrealized loss of $1,414,000 in a continuous unrealized loss position for twelve months or more. At December 31, 2015, there was one trust preferred security with a fair value of $1,906,000 and unrealized loss of $1,224,000 in a continuous unrealized loss position for twelve months or more. The unrealized loss was primarily due to the long-term nature of the trust preferred security, a lack of demand or inactive market for the security, the impending change to the regulatory treatment of these securities, and concerns regarding the underlying financial institutions that have issued the trust preferred securities.

The Company recorded no other-than-temporary impairment (OTTI) for these securities during 2016 or 2015. Because it is not more-likely-than-not that the Company will be required to sell the remaining security before recovery of its new, lower amortized cost basis, which may be maturity, the Company does not consider the remainder of the investment to be other-than-temporarily impaired at September 30, 2016. However, future downgrades or additional deferrals and defaults in this security, could result in additional OTTI and consequently, have a material impact on future earnings.

Following are the details for the currently impaired trust preferred security (in thousands):

	Book Value	Fair Value	Unrealized Gains (Losses)	Other-than-temporary Impairment Recorded To-date
PreTSL XXVIII	$3,075	$1,661	$ (1,414)	$ (1,111)

Other securities. At September 30, 2016 there was one other security with a fair value of $1,994,000 and unrealized losses of $6,000 in a continuous unrealized loss position for twelve months or more. At December 31, 2015, there were no corporate bonds in a continuous unrealized loss position for twelve months or more.

The Company does not believe any other individual unrealized loss as of September 30, 2016 represents OTTI. However, given the continued disruption in the financial markets, the Company may be required to recognize OTTI losses in future periods with respect to its available for sale investment securities portfolio. The amount and timing of any additional OTTI will depend on the decline in the underlying cash flows of the securities. 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 the period the other-than-temporary impairment is identified.

Other-than-temporary Impairment. Upon acquisition of a security, the Company determines whether it is within the scope of the accounting guidance for investments in debt and equity securities or whether it must be evaluated for impairment under the accounting guidance for beneficial interests in securitized financial assets.

The Company conducts periodic reviews to evaluate its investment securities to determine whether OTTI has occurred. While all securities are considered, the securities primarily impacted by OTTI evaluation are pooled trust preferred securities. For the pooled trust preferred security currently in the investment portfolio, an extensive review is conducted to determine if any additional OTTI has occurred. The Company utilizes an independent third-party to perform the OTTI evaluation. The Company's management reviews the assumption inputs and methodology with the third-party to obtain an understanding of them and determine if they are appropriate for the evaluation. Economic models are used to project future cash flows for the security based on current assumptions for discount rate, prepayments, default and deferral rates and recoveries. These assumptions are determined based on the structure of the issuance, the specific collateral underlying the security, historical performance of trust preferred securities and general state of the economy. The OTTI test compares the present value of the cash flows from quarter to quarter to determine

if there has been an adverse change which could indicate additional OTTI.

The discount rate assumption used in the cash flow model is equal to the current yield used to accrete the beneficial interest. The Company's current trust preferred security investment has a floating rate coupon of 3-month LIBOR plus 90 basis points. Since the estimate of 3-month LIBOR is based on the forward curve on the measurement date, and is therefore variable, the discount assumption for this security is a range of projected coupons over the expected life of the security.

The Company considers the likelihood that issuers will prepay their securities which changes the amount of expected cash flows. Factors such as the coupon rates of collateral, economic conditions and regulatory changes, such as the Dodd-Frank Act and Basel III, are considered.

The trust preferred security includes collateral issued by financial institutions and insurance companies. To identify bank issuers with a high risk of near term default or deferral, a credit model developed by the third-party is utilized that scores each bank issuer based on 29 different ratios covering capital adequacy, asset quality, earnings, liquidity, the Texas Ratio, and sensitivity to interest rates. To account for longer term bank default risk not captured by the credit model, it is assumed that banks will default at a rate of 2% annually for the first two years of the cash flow projection, and 36 basis points in each year thereafter. To project defaults for insurance issuers, each issuer's credit rating is mapped to its idealized default rate, which is AM Best's estimate of the historical default rate for insurance companies with that rating.

Lastly, it is assumed that trust preferred securities issued by banks that have already failed will have no recoveries, and that banks projected to default will have recoveries of 10%. Additionally, the 10% recovery assumption, incorporates the potential for cures by banks that are currently in deferral.

If the Company determines that a given pooled trust preferred security position will be subject to a write-down or loss, the Company records the expected credit loss as a charge to earnings.

Credit Losses Recognized on Investments. As described above, the Company's investment in trust preferred security has experienced fair value deterioration due to credit losses but is not otherwise other-than-temporarily impaired. The following table provides information about the trust preferred security for which only a credit loss was recognized in income and other losses are recorded in other comprehensive income (loss) for the nine months ended September 30, 2016 and 2015 (in thousands).

	Accumulated Credit Losses	
	September 30, 2016	September 30, 2015
Credit losses on trust preferred securities held		
Beginning of period	$1,111	$ 1,111
Additions related to OTTI losses not previously recognized	—	—
Reductions due to sales / (recoveries)	—	—
Reductions due to change in intent or likelihood of sale	—	—
Additions related to increases in previously recognized OTTI losses	—	—
Reductions due to increases in expected cash flows	—	—
End of period	$1,111	$ 1,111

Note 4 – Loans and Allowance for Loan Losses

Loans are stated at the principal amount outstanding net of unearned discounts, unearned income and allowance for loan 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 September 30, 2016 and December 31, 2015 follows (in thousands):

	September 30, 2016	December 31, 2015
Construction and land development	$ 49,305	$ 39,232
Agricultural real estate	128,954	122,579
1-4 Family residential properties	344,190	232,351
Multifamily residential properties	83,987	45,765
Commercial real estate	641,134	409,487
Loans secured by real estate	1,247,570	849,414
Agricultural loans	81,474	75,998
Commercial and industrial loans	375,824	305,851
Consumer loans	41,313	42,097
All other loans	72,875	11,317
Total Gross loans	1,819,056	1,284,677
Less: Loans held for sale	3,584	968
	1,815,472	1,283,709
Less:		
Net deferred loan fees, premiums and discounts	12,311	2,788
Allowance for loan losses	16,161	14,576
Net loans	$ 1,787,000	$ 1,266,345

Net loans increased $520.7 million as of September 30, 2016 compared to December 31, 2015. Of this increase, approximately $441.1 million is a result of the acquisition First Clover Leaf 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 market value, taking into consideration future commitments to sell the loans. These loans are primarily for 1-4 family residential properties.

Most of the Company's business activities are with customers located within central Illinois. At September 30, 2016, the Company's loan portfolio included $210.2 million of loans to borrowers whose businesses are directly related to agriculture. Of this amount, $170.9 million was concentrated in other grain farming. Total loans to borrowers whose businesses are directly related to agriculture increased $11.6 million from $198.6 million at December 31, 2015 due to seasonal increases based upon timing of cash flow requirements. Loans concentrated in other grain farming increased $9.4 million from $161.5 million at December 31, 2015. 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 $98.0 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 $154.5 million of loans to lessors of non-residential buildings, $142.9 million of loans

to lessors of residential buildings and dwellings, and $26.2 million of loans to automobile dealers.

The structure of the Company's loan approval process is based on progressively larger lending authorities granted to individual loan officers, loan committees, and ultimately the board of directors. Outstanding balances to one borrower or affiliated borrowers are limited by federal regulation and the vast majority of borrowers are below regulatory thresholds. The Company

can occasionally have outstanding balances to one borrower up to but not exceeding the regulatory threshold should underwriting guidelines warrant. 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.

Purchase Credit-Impaired Loans. Loans acquired with evidence of credit deterioration since origination and for which it is probable that all contractually required payments will not be collected are considered to be credit impaired. Evidence of credit quality deterioration as of the purchase date may include information such as past-due and nonaccrual status, borrower credit scores and recent loan to value percentages. Purchase credit-impaired ("PCI") loans are accounted for under ASC 310-30, Receivables--Loans and Debt Securities Acquired with Deteriorated Credit Quality ("ASC 310-30"), and are initially measured at fair value, which includes 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 is 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.

Allowance for Loan Losses

The allowance for loan losses represents the Company’s best estimate of the reserve necessary to adequately account for probable losses existing in the current portfolio. The provision for loan losses is the charge against current earnings that is determined by the Company as the amount needed to maintain an adequate allowance for loan losses. In determining the adequacy of the allowance for loan losses, and therefore the provision to be charged to current earnings, 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 loan losses by separately evaluating large impaired loans and nonimpaired loans.

The Company has loans acquired from business combinations with uncollected principal balances. These loans are carried net of a fair value adjustment for credit risk and interest rates and are only included in the allowance calculation to the extent that the reserve requirement exceeds the fair value adjustment. However, as the acquired loans renew, it is necessary to establish an allowance which represents an amount that, in management’s opinion, will be adequate to absorb probable credit losses inherent in such loans.

Impaired 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 also 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 do not justify the carrying amount of the loan. The carrying value of the loan reflects reductions from prior charge-offs.

Non-Impaired loans

Non-impaired 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 Watch, Substandard, or Doubtful. Determining the appropriate level of the allowance for loan losses for all non-impaired loans is based on a migration analysis of net losses over a rolling twelve quarter period by loan segment. A weighted average of the net losses is determined by assigning more weight to the most recent quarters in order to recognize current risk factors influencing the various segments of the loan portfolio more prominently than past periods. Environmental factors including 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 are evaluated each

quarter to determine if adjustments to the weighted average historical net losses is appropriate given these current influences on the risk profile of each loan segment. 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 periodically assessed and adjusted when appropriate. Consumer loans are evaluated for adverse classification based primarily on the Uniform Retail Credit Classification and Account Management Policy established by the federal banking regulators. Classification standards are generally based on delinquency status, collateral coverage, bankruptcy and the presence of fraud.

Due to weakened economic conditions during recent years, the Company established qualitative factor adjustments for each of the loan segments at levels above the historical net loss averages. Some of the economic factors included 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 and increased operating costs for farmers, and increased levels of unemployment and bankruptcy impacting consumer's ability to pay. Each of these economic uncertainties was taken into consideration in developing the level of the allowance for loan losses.

The Company has not materially changed any aspect of its overall approach in the determination of the allowance for loan losses. However, on an on-going basis the Company continues to refine the methods used in determining management's best estimate of the allowance for loan losses.

The following tables present the balance in the allowance for loan losses and the recorded investment in loans based on portfolio segment and impairment method for the three and nine-months ended September 30, 2016 and 2015 and for the year ended December 31, 2015 (in thousands):

	Commercial/ Commercial Real Estate	Agricultural/ Agricultural Real Estate	Residential Real Estate	Consumer	Unallocated	Total
Three months ended September 30, 2016						
Allowance for loan losses:						
Balance, beginning of period	$ 12,025	$ 1,419	$ 924	$ 733	$ 63	$15,164
Provision charged to expense	445	476	(36)	248	(52)	1,081
Losses charged off	—	—	—	(271)	—	(271)
Recoveries	128	2	1	56	—	187
Balance, end of period	$ 12,598	$ 1,897	$ 889	$ 766	$ 11	$16,161
Ending balance:						
Individually evaluated for impairment	$ 272	$ 329	$ —	$ —	$ —	$601
Collectively evaluated for impairment	$ 12,326	$ 1,568	$ 889	$ 766	$ 11	$15,560
Acquired with deteriorated credit quality	$ —	$ —	$ —	$ —	$ —	$—

	Commercial/ Commercial Real Estate	Agricultural/ Agricultural Real Estate	Residential Real Estate	Consumer	Unallocated	Total
Three months ended September 30, 2015						
Allowance for loan losses:						
Balance, beginning of period	$11,294	$1,312	$731	$382	$ 212	$13,931
Provision charged to expense	84	84	97	305	(89)	481
Losses charged off	(174)	—	(24)	(72)	—	(270)
Recoveries	47	—	—	39	—	86
Balance, end of period	$11,251	$1,396	$804	$654	$ 123	$14,228
Ending balance:						
Individually evaluated for impairment	$148	$—	$—	$194	$ —	$342
Collectively evaluated for impairment	$11,103	$1,396	$804	$460	$ 123	$13,886
Loans acquired with deteriorated credit quality	$—	$—	$—	$—	$ —	$—
Nine months ended September 30, 2016						
Allowance for loan losses:						
Balance, beginning of year	$11,379	$1,337	$994	$642	$ 224	$14,576
Provision charged to expense	1,058	587	36	459	(213)	1,927
Losses charged off	(582)	(30)	(142)	(493)	—	(1,247)
Recoveries	743	3	1	158	—	905
Balance, end of period	$12,598	$1,897	$889	$766	$ 11	$16,161
Ending balance:						
Individually evaluated for impairment	$272	$329	$—	$—	$ —	$601
Collectively evaluated for impairment	$12,326	$1,568	$889	$766	$ 11	$15,560
Acquired with deteriorated credit quality	$—	$—	$—	$—	$ —	$—
Loans:						
Individually evaluated for impairment	$1,753	$1,170	$471	$20	$ —	$3,414
Collectively evaluated for impairment	$1,162,399	$208,775	$378,749	$44,740	$ —	$1,794,663
Acquired with deteriorated credit quality	$3,929	$—	$4,739	$—	$ —	$8,668
Ending balance	$1,168,081	$209,945	$383,959	$44,760	$ —	$1,806,745

	Commercial/ Commercial Real Estate	Agricultural/ Agricultural Real Estate	Residential Real Estate	Consumer	Unallocated	Total
Nine months ended September 30, 2015						
Allowance for loan losses:						
Balance, beginning of year	$ 10,914	$ 1,360	$ 790	$ 386	$ 232	$ 13,682
Provision charged to expense	319	35	77	567	(109)	889
Losses charged off	(245)	—	(64)	(432)	—	(741)
Recoveries	263	1	1	133	—	398
Balance, end of period	$ 11,251	$ 1,396	$ 804	$ 654	$ 123	$ 14,228
Ending balance:						
Individually evaluated for impairment	$ 148	$ —	$ —	$ 194	$ —	$ 342
Collectively evaluated for impairment	$ 11,103	$ 1,396	$ 804	$ 460	$ 123	$ 13,886
Acquired with deteriorated credit quality	$ —	$ —	$ —	$ —	$ —	$ —
Loans:						
Individually evaluated for impairment	$ 1,248	$ —	$ 411	$ 224	$ —	$ 1,883
Collectively evaluated for impairment	$ 771,140	$ 185,275	$ 234,350	$ 44,101	$ —	$ 1,234,866
Loans acquired with deteriorated credit quality	$ —	$ —	$ —	$ —	$ —	$ —
Ending balance	$ 772,388	$ 185,275	$ 234,761	$ 44,325	$ —	$ 1,236,749
Year ended December 31, 2015						
Allowance for loan losses:						
Balance, beginning of year	$ 10,914	$ 1,360	$ 790	$ 386	$ 232	$ 13,682
Provision charged to expense	451	(25)	267	633	(8)	1,318
Losses charged off	(289)	—	(64)	(553)	—	(906)
Recoveries	303	2	1	176	—	482
Balance, end of year	$ 11,379	$ 1,337	$ 994	$ 642	$ 224	$ 14,576
Ending balance:						
Individually evaluated for impairment	$ 134	$ —	$ —	$ —	$ —	$ 134
Collectively evaluated for impairment	$ 11,245	$ 1,337	$ 994	$ 642	$ 224	$ 14,442
Loans acquired with deteriorated credit quality	$ —	$ —	$ —	$ —	$ —	$ —
Loans:						
Individually evaluated for impairment	$ 744	$ 430	$ —	$ —	$ —	$ 1,174
Collectively evaluated for impairment	806,992	197,636	232,348	43,739	—	1,280,715
Acquired with deteriorated credit quality	—	—	—	—	—	—
Ending balance	$ 807,736	$ 198,066	$ 232,348	$ 43,739	$ —	$ 1,281,889

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 to be 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 timeframes 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.

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":

Watch. Loans classified as watch 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 September 30, 2016 and December 31, 2015 (in thousands):

	Construction & Land Development		Agricultural Real Estate		1-4 Family Residential Properties		Multifamily Residential Properties	
	2016	2015	2016	2015	2016	2015	2016	2015
Pass	$48,788	$39,067	$121,170	$118,103	$334,422	$224,552	$81,490	$45,180
Watch	—	—	5,248	2,282	1,178	1,454	1,668	243
Substandard	231	142	2,411	2,089	6,300	5,565	539	317
Doubtful	—	—	—	—	—	—	—	—
Total	$49,019	$39,209	$128,829	$122,474	$341,900	$231,571	$83,697	$45,740

	Commercial Real Estate (Nonfarm/Nonresidential)		Agricultural Loans		Commercial & Industrial Loans		Consumer Loans	
	2016	2015	2016	2015	2016	2015	2016	2015
Pass	$ 615,977	$ 386,769	$76,605	$75,437	$360,601	$298,633	$40,470	$41,278
Watch	3,500	10,498	3,937	210	9,179	4,686	18	—
Substandard	17,209	11,905	872	239	2,020	1,741	393	301
Doubtful	—	—	—	—	—	—	—	—
Total	$ 636,686	$ 409,172	$81,414	$75,886	$371,800	$305,060	$40,881	$41,579

	All Other Loans		Total Loans	
	2016	2015	2016	2015
Pass	$69,664	$11,198	$1,749,187	$1,240,217
Watch	2,855	—	27,583	19,373
Substandard	—	—	29,975	22,299
Doubtful	—	—	—	—
Total	$72,519	$11,198	$1,806,745	$1,281,889

The following table presents the Company’s loan portfolio aging analysis at September 30, 2016 and December 31, 2015 (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 & Accruing
September 30, 2016							
Construction and land development	$—	$—	$—	$—	$49,019	$49,019	$ —
Agricultural real estate	35	188	535	758	128,071	128,829	—
1-4 Family residential properties	877	937	1,183	2,997	338,903	341,900	299
Multifamily residential properties	—	—	240	240	83,457	83,697	—
Commercial real estate	461	787	577	1,825	634,861	636,686	—
Loans secured by real estate	1,373	1,912	2,535	5,820	1,234,311	1,240,131	299
Agricultural loans	131	36	1	168	81,246	81,414	—
Commercial and industrial loans	355	—	334	689	371,111	371,800	—
Consumer loans	115	26	1	142	40,739	40,881	—
All other loans	—	—	—	—	72,519	72,519	—
Total loans	$1,974	$1,974	$2,871	$6,819	$1,799,926	$1,806,745	$ 299
December 31, 2015							
Construction and land development	$—	$—	$—	$—	$39,209	$39,209	$ —
Agricultural real estate	106	—	—	106	122,368	122,474	—
1-4 Family residential properties	1,059	742	154	1,955	229,616	231,571	—
Multifamily residential properties	—	—	—	—	45,740	45,740	—
Commercial real estate	251	67	31	349	408,823	409,172	—
Loans secured by real estate	1,416	809	185	2,410	845,756	848,166	—
Agricultural loans	65	74	—	139	75,747	75,886	—
Commercial and industrial loans	65	476	196	737	304,323	305,060	—
Consumer loans	137	42	13	192	41,387	41,579	—
All other loans	—	—	—	—	11,198	11,198	—
Total loans	$1,683	$1,401	$394	$3,478	$1,278,411	$1,281,889	$ —

Impaired 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 following tables present impaired loans as of September 30, 2016 and December 31, 2015 (in thousands):

	September 30, 2016			December 31, 2015		
	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Recorded Balance	Unpaid Principal Balance	Specific Allowance
Loans with a specific allowance:						
Construction and land development	$—	$—	$ —	$—	$—	$ —
Agricultural real estate	430	430	—	430	430	—
1-4 Family residential properties	471	471	—	—	—	—
Multifamily residential properties	535	535	—	316	316	—
Commercial real estate	841	841	203	—	—	—
Loans secured by real estate	2,277	2,277	203	746	746	—
Agricultural loans	740	740	329	—	—	—
Commercial and industrial loans	377	388	69	405	405	134
Consumer loans	20	20	—	23	23	—
All other loans	—	—	—	—	—	—
Total loans	$3,414	$3,425	$ 601	$1,174	$1,174	$ 134
Loans without a specific allowance:						
Construction and land development	$231	$231	$ —	$142	$707	$ —
Agricultural real estate	44	47	—	24	28	—
1-4 Family residential properties	3,275	3,606	—	1,373	1,688	—
Multifamily residential properties	3,430	3,430	—	1	1	—
Commercial real estate	4,460	4,543	—	304	325	—
Loans secured by real estate	11,440	11,857	—	1,844	2,749	—
Agricultural loans	15	44	—	79	79	—
Commercial and industrial loans	510	740	—	670	932	—
Consumer loans	408	426	—	242	256	—
All other loans	—	—	—	—	—	—
Total loans	$12,373	$13,067	$ —	$2,835	$4,016	$ —
Total loans:						
Construction and land development	$231	$231	$ —	$142	$707	$ —
Agricultural real estate	474	477	—	454	458	—
1-4 Family residential properties	3,746	4,077	—	1,373	1,688	—
Multifamily residential properties	3,965	3,965	—	317	317	—
Commercial real estate	5,301	5,384	203	304	325	—
Loans secured by real estate	13,717	14,134	203	2,590	3,495	—
Agricultural loans	755	784	329	79	79	—

Commercial and industrial loans	887	1,128	69	1,075	1,337	134
Consumer loans	428	446	—	265	279	—
All other loans	—	—	—	—	—	—
Total loans	$15,787	$16,492	$ 601	$4,009	$ 5,190	$ 134

The following tables present average recorded investment and interest income recognized on impaired loans for the three and nine-month periods ended September 30, 2016 and 2015 (in thousands):

	For the three months ended			
	September 30, 2016		September 30, 2015	
	Average Investment in Impaired Loans	Interest Income Recognized	Average Investment in Impaired Loans	Interest Income Recognized
Construction and land development	$ 231	$ —	$ 148	$ —
Agricultural real estate	474	—	25	—
1-4 Family residential properties	1,572	3	1,160	2
Multifamily residential properties	535	—	326	—
Commercial real estate	1,097	1	777	1
Loans secured by real estate	3,909	4	2,436	3
Agricultural loans	755	—	—	—
Commercial and industrial loans	744	1	1,157	3
Consumer loans	306	—	296	1
All other loans	10	—	—	—
Total loans	$ 5,724	$ 5	$ 3,889	$ 7

	For the nine months ended			
	September 30, 2016		September 30, 2015	
	Average Investment in Impaired Loans	Interest Income Recognized	Average Investment in Impaired Loans	Interest Income Recognized
Construction and land development	$ 231	$ —	$ 148	$ —
Agricultural real estate	476	—	92	2
1-4 Family residential properties	1,344	10	1,197	11
Multifamily residential properties	539	—	328	—
Commercial real estate	1,064	2	784	2
Loans secured by real estate	3,654	12	2,549	15
Agricultural loans	696	—	—	—
Commercial and industrial loans	777	1	1,293	6
Consumer loans	388	—	308	2
Total loans	$ 5,515	$ 13	$ 4,150	$ 23

The amount of interest income recognized by the Company within the periods stated above was due to loans modified in a troubled debt restructuring that remained on accrual status. The balance of loans modified in a troubled debt restructuring included in the impaired loans at September 30, 2016 stated above that were still accruing was $514,000 of 1-4 Family residential properties, $3,430,000 of multifamily residential properties, $2,152,000 of commercial real estate, $46,000 of commercial & industrial loans and $9,000 of consumer loans. The balance of loans modified into a troubled debt restructuring at September 30, 2015 included in the impaired loans stated above that were still accruing was $339,000 of 1-4 family residential properties, $36,000 commercial real estate, $149,000 commercial and industrial loans, and $20,000 of consumer loans. For the nine months ended September 30, 2016 and 2015, the amount of interest income recognized using a cash-basis method of accounting during the period that the loans were impaired was not material.

Non Accrual Loans

The following table presents the Company's recorded balance of nonaccrual loans as September 30, 2016 and December 31, 2015 (in thousands). This table excludes purchased impaired loans and performing troubled debt restructurings.

	September 30, 2016	December 31, 2015
Construction and land development	$ 231	$ 142
Agricultural real estate	474	454
1-4 Family residential properties	3,232	975
Multifamily residential properties	535	317
Commercial real estate	3,149	269
Loans secured by real estate	7,621	2,157
Agricultural loans	755	79
Commercial and industrial loans	841	928
Consumer loans	419	248
Total loans	$ 9,636	$ 3,412

Interest income that would have been recorded under the original terms of such nonaccrual loans totaled $99,000 and $49,000 for the nine months ended September 30, 2016 and 2015, respectively.

Purchased Credit-Impaired Loans

The Company acquired certain loans considered to be credit-impaired in its business combination with First Clover Leaf during the third quarter of 2016. At acquisition, these loans evidenced deterioration of credit quality since origination and it was probable, at acquisition, that all contractually required payments would not be collected. The carrying amount of these loans is included in the consolidated balance sheet amounts for Loans. The Company had no PCI loans prior to the First Clover Leaf acquisition. The amount of these loans at September 30, 2016 are as follows (in thousands):

	September 30, 2016	December 31, 2015
1-4 Family residential properties	$ 1,310	$ —
Multifamily residential properties	3,430	—
Commercial real estate	3,897	—
Loans secured by real estate	8,637	—
Commercial and industrial loans	31	—
Carrying amount	8,668	—
Allowance for loan losses	—	—
Carrying amount, net of allowance	$ 8,668	$ —

As of September 8, 2016, the acquisition date, the principal outstanding of PCI loans totaled $10,650,000 and the fair value of PCI loans totaled $8,688,000. For PCI loans, the difference between contractually required payments at acquisition and the cash flow expected to collected is referred to as the non-accretable difference. Any excess of expected cash flows over the fair value is referred to as the accretable yield. As of September 30, 2016 there is no accretable yield on the PCI loans acquired. Subsequent decreases to the expected cash flows will result in a provision for loan and lease losses. Subsequent increased in expected cash flows will result in a reversal of the provision for

loan and lease losses to the extent of prior charges and then an adjustment to accretable yield, which would have a positive impact on interest income. There were no changes in the estimated expected cash flows for the period from acquisition to September 30, 2016.

The PCI loans acquired during the nine months ended September 30, 2016 for which it was probable that all contractually required payments would not be collected were as follows (in thousands):

	First Clover Leaf
Contractually required payments	$10,650
Non-accretable difference	(1,962)
Cash flows expected to be collected at acquisition	8,688
Accretable yield	—
Fair value of acquired loans at acquisition	$8,688

Income would not be recognized on certain PCI loans if cash flows could not be reasonably estimated. The Company had no purchased loans for which it could not reasonably estimate cash flows to be collected.

Troubled Debt Restructuring

The balance of troubled debt restructurings ("TDRs") at September 30, 2016 and December 31, 2015 was $11.00 million and $1.7 million, respectively. There was $69,000 and $0 in specific reserves established with respect to these loans as of September 30, 2016 and December 31, 2015, 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. The following table presents the Company’s recorded balance of troubled debt restructurings at September 30, 2016 and December 31, 2015 (in thousands).

Troubled debt restructurings:	September 30, 2016	December 31, 2015
Construction and land development	$ 231	$ 142
Agricultural real estate	232	232
1-4 Family residential properties	1,982	515
Multifamily residential properties	3,430	—
Commercial real estate	4,207	124
Loans secured by real estate	10,082	1,013
Commercial and industrial loans	575	491
Consumer loans	339	239
Total	$ 10,996	$ 1,743
Performing troubled debt restructurings:		
1-4 Family residential properties	514	$ 397
Multifamily residential properties	3,430	—
Commercial real estate	2,152	36
Loans secured by real estate	6,096	433
Commercial and industrial loans	46	147
Consumer loans	9	21
Total	$ 6,151	$ 601

30

The increase in TDRs during the period was was primarily due to TDRs acquired in the acquisition of First Clover Leaf Bank, net of loans that paid off. The following table presents loans modified as TDRs during the nine months ended September 30, 2016 and 2015, as a result of various modified loan factors (in thousands):

	September 30, 2016			September 30, 2015		
	Number of Modifications	Recorded Investment	Type of Modifications	Number of Modifications	Recorded Investment	Type of Modifications
Construction and land development	1	$ 231	(b)(c)	—	$ —	
1-4 Family residential properties	1	47	(c)	4	61	(b)(c)
Commercial real estate	1	43	(b)(c)	1	34	(b)(c)
Loans secured by real estate	3	321		5	95	
Commercial and industrial loans	6	405	(b)(c)	4	507	(b)(c)
Consumer Loans	1	20	(c)	3	237	(b)(c)
Total	10	$ 746		12	$ 839	

Type of modifications:
(a) Reduction of stated interest rate of loan
(b) Change in payment terms
(c) Extension of maturity date

A loan is considered to be in payment default once it is 90 days past due under the modified terms. There was one loan modified as troubled debt restructuring during the prior twelve months that experienced defaults during the nine months ended September 30, 2016. There were no loans in payment default as of December 31, 2015.

The balance of real estate owned includes $2,096,000 and $477,000 of foreclosed residential real estate properties recorded as a result of obtaining physical possession of the property at September 30, 2016 and December 31, 2015, respectively. the recorded investment of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceeds are in process was $555,000 and $55,000 at September 30, 2016 and December 31, 2015, respectively.

Note 5 -- Goodwill and Intangible Assets

The Company has goodwill from business combinations, intangible assets from branch acquisitions, and identifiable intangible assets assigned to core deposit relationships and customer lists of the Insurance agency.

The following table presents gross carrying value and accumulated amortization by major intangible asset class as of September 30, 2016 and December 31, 2015 (in thousands):

	September 30, 2016		December 31, 2015	
	Gross Carrying Value	Accumulated Amortization	Gross Carrying Value	Accumulated Amortization
Goodwill not subject to amortization (effective 1/1/02)	$61,551	$ 3,760	$44,767	$ 3,760
Intangibles from branch acquisition	3,015	3,015	3,015	3,015
Core deposit intangibles	19,862	9,180	15,202	8,017
Other intangibles	3,731	2,055	3,731	1,919
Mortgage Service Rights	$1,060	$ —	$—	$ —
	$89,219	$ 18,010	$66,715	$ 16,711

During the third quarter of 2016, goodwill of$16.8 million was recorded for the acquisition of First Clover Leaf. All of the

31

goodwill was assigned to the banking segment of the Company. The Company expects this goodwill will not be deductible for tax purposes.

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

Purchase price (in excess of net book value)		$8,741
Less purchase accounting adjustments:		
Fair value of securities	737	
Fair value of loans, net	3,475	
Fair value of OREO	754	
Fair value of premises and equipment	(1,963)	
Fair value of time deposits	1,994	
Fair value of FHLB advances	113	
Fair value of subordinated debentures	(731)	
Core deposit intangible	(4,660)	
Other assets	8,325	
		8,044
Resulting goodwill from acquisition		$16,785

Goodwill of $14 million was recorded for the acquisition of twelve Old National Bank Branches during the third quarter of 2015. The goodwill consists largely of the synergies and economies of scale expected from combining the operations of the Company and the ONB Branches. All of the goodwill was assigned to the banking segment of the Company. The Company expects this goodwill to be fully deductible for tax purposes. The following table provides a reconciliation of the purchase price paid for the ONB Branches and the amount of goodwill recorded (in thousands):

Purchase price (in excess of net book value)		$15,892
Less purchase accounting adjustments:		
Fair value of loans	$3,377	
Fair value of premises and equipment	125	
Fair value of time deposits	837	
Core deposit intangible	(6,216)	
Other assets	259	
		(1,618)
Resulting goodwill from acquisition		$14,274

During the fourth quarter of 2015, goodwill of $980,000 was also recorded for the acquisition of certain assets used by Illiana Insurance Agency, Ltd., in connection with its health plan and life insurance and annuity's business. The following table provides a reconciliation of the purchase price paid for Illiana and the amount of goodwill recorded (in thousands):

Purchase price (in excess of net book value)	$2,807
Less purchase accounting adjustments:	
Insurance company intangibles	(1,827)
Resulting goodwill from acquisition	$980

Total amortization expense for the nine months ended September 30, 2016 and 2015 was as follows (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Core deposit intangibles	395	155	1,161	466
Other Intangibles	46	—	137	—
Mortgage Service Rights	14	—	14	—
	$455	$155	$1,312	$466

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

Aggregate amortization expense:	
For period 01/01/16-09/30/16	$1,312
Estimated amortization expense:	
For period 10/01/16-12/31/16	557
For year ended 12/31/17	1,502
For year ended 12/31/18	1,373
For year ended 12/31/19	1,259
For year ended 12/31/20	1,113
For year ended 12/31/21	890

In accordance with the provisions of SFAS No. 142, “Goodwill and Other Intangible Assets,” codified within ASC 350, the Company performed testing of goodwill for impairment as of September 30, 2016 and determined that, as of that date, goodwill was not impaired. Management also concluded that the remaining amounts and amortization periods were appropriate for all intangible assets.

Note 6 -- Repurchase Agreements and Other Borrowings

Securities sold under agreements to repurchase were $127.4 million at September 30, 2016, an decrease of $1.4 million from $128.8 million at December 31, 2015. The decrease during the first nine months of 2016 was primarily due to decreases in balances of customers due to changes in cash flow needs for their businesses net of balances acquired with First Clover Leaf Bank. All of the transactions have overnight maturities.

The right of setoff for a repurchase agreement resembles a secured borrowing, whereby the collateral pledged by the Company would be used to settle the fair value of the repurchase agreement should the Company be in default (e.g., declare bankruptcy), the Company could cancel the repurchase agreement (i.e., cease payment of principal and interest), and attempt collection on the amount of collateral value in excess of the repurchase agreement fair value.

The collateral is held by a third party financial institution in the counterparty's custodial account. The counterparty has the right to sell or repledge the investment securities. For government entity repurchase agreements, the collateral is held by the Company in a segregated custodial account under a tri-party agreement. The Company is required by the counterparty to maintain adequate collateral levels. In the event the collateral fair value falls below stipulated levels, the Company will pledge additional securities. The Company closely monitors collateral levels to ensure adequate

levels are maintained, while mitigating the potential of over-collateralization in the event of counterparty default.

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

	September 30, 2016	December 31, 2015
US Treasury securities and obligations of U.S. government corporations & agencies	$ 57,477	$ 85,805
Obligations of states and political subdivisions	5,658	—
Mortgage-backed securities: GSE: residential	64,297	43,037
Total	$ 127,432	$ 128,842

FHLB borrowings increased to $50 million at September 30, 2016 from $20 million at December 31, 2015. At September 30, 2016 the advances were as follows:

- $5 million advance with a 6-month maturity, at 0.59%, due December, 19, 2016
- $5 million advance with a 3-month maturity, at 0.41%, due December 27, 2016
- $5 million advance with a 1-year maturity, at 0.82%, due June 21, 2017
- $5 million advance with a 3-year maturity, at 1.30%, due May 7, 2018
- $5 million advance with a 2-year maturity, at 0.99%, due June 21, 2018
- $10 million advance with a 3-year maturity, at 1.42%, due November 5, 2018
- $5 million advance with a 6-year maturity, at 2.30%, due August 24, 2020
- $5 million advance with a 7-year maturity, at 2.55%, due October 1, 2021
- $5 million advance with a 8-year maturity, at 2.40%, due January 9, 2023

Note 7 -- Fair Value of Assets and Liabilities

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

Level 1	Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.
Level 2	Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or comparable assets or liabilities which use observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
Level 3	Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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

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

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

The trust preferred securities are collateralized debt obligation securities that are backed by trust preferred securities issued by banks, thrifts, and insurance companies. The market for these securities at September 30, 2016 is not active and markets for similar securities are also not active. The inactivity was evidenced first by a significant widening of the bid-ask spread in the brokered markets in which trust preferred securities trade and then by a significant decrease in the volume of trades relative to historical levels. The new issue market is also inactive and will continue to be, as a result of the Dodd-Frank Act's elimination of trust preferred securities from Tier 1 capital for certain holding companies. There are currently very few market participants who are willing and or able to transact for these securities. The market values for these securities are very depressed relative to historical levels. Given conditions in the debt markets today and the absence of observable transactions in the secondary and new issue markets, we determined:

- The few observable transactions and market quotations that are available are not reliable for purposes of determining fair value at September 30, 2016,
- An income valuation approach technique (present value technique) that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs will be equally or more representative of fair value than the market approach valuation technique used at prior measurement dates, and
- The trust preferred securities held by the Company will be classified within Level 3 of the fair value hierarchy because we determined that significant adjustments are required to determine fair value at the measurement date.

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 September 30, 2016 and December 31, 2015 (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)
September 30, 2016				
Available-for-sale securities:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	48,736	—	48,736	—
Obligations of states and political subdivisions	160,919	—	160,919	—
Mortgage-backed securities	341,190	—	341,190	—
Trust preferred securities	1,661	—	—	1,661
Other securities	4,120	110	4,010	—
Total available-for-sale securities	556,626	110	554,855	1,661
December 31, 2015				
Available-for-sale securities:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	90,141	—	90,141	—
Obligations of states and political subdivisions	110,717	—	110,717	—
Mortgage-backed securities	312,054	—	312,054	—
Trust preferred securities	1,906	—	—	1,906
Other securities	4,030	64	3,966	—
Total available-for-sale securities	$518,848	$64	$ 516,878	$ 1,906

The change in fair value of assets measured on a recurring basis using significant unobservable inputs (Level 3) for the nine months ended September 30, 2016 and 2015 is summarized as follows (in thousands):

	Trust Preferred Securities			
	Three months ended		Nine months ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Beginning balance	$1,746	$ 2,141	$1,906	$ 364
Transfers into Level 3	—	—	—	—
Transfers out of Level 3	—	—	—	—
Total gains or losses:				
Included in net income	—	—	—	—
Included in other comprehensive income (loss)	(66)	18	(190)	1,894
Purchases, issuances, sales and settlements:				
Purchases	—	—	—	—
Issuances	—	—	—	—
Sales	—	—	—	—

Settlements	(19)	(34)	(55)	(133)
Ending balance	$1,661	$ 2,125	$1,661	$ 2,125
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	$—	$ —	$—	$ —

36

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.

Impaired Loans (Collateral Dependent). 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 impaired 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 September 30, 2016 was $12,215,000 and a fair value of $9,647,000 resulting in specific loss exposures of $2,568,000.

When there is little prospect of collecting principal or interest, loans, or portions of loans, may be charged-off to the allowance for loan 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 loan losses. Due to the subjective nature of establishing the fair value when the asset is acquired, the actual fair value of the other real estate owned or foreclosed asset could differ from the original estimate. If it is determined that fair value 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 September 30, 2016 was $2,096,000. Other real estate owned included in the total carrying amount and measured at fair value on a nonrecurring basis during the period amounted to $1,821,000.

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 September 30, 2016 and December 31, 2015 (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)
September 30, 2016				
Impaired loans (collateral dependent)	$9,647	$ —	$ —	$ 9,647

Foreclosed assets held for sale	1,821	—	—	1,821
December 31, 2015				
Impaired loans (collateral dependent)	$294	$ —	$ —	$ 294
Foreclosed assets held for sale	423	—	—	423

37

Sensitivity of Significant Unobservable Inputs

The following is a discussion of the sensitivity of significant unobservable inputs, the interrelationships between those inputs and other unobservable inputs used in recurring fair value measurement and of how those inputs might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement.

Trust Preferred Securities. The significant unobservable inputs used in the fair value measurement of the Company's trust preferred securities are offered quotes and comparability adjustments. Significant increases (decreases) in any of those inputs in isolation would result in a significantly lower (higher) fair value measurement. Generally, changes in either of those inputs will not affect the other input.

The following table presents quantitative information about unobservable inputs used in recurring and nonrecurring Level 3 fair value measurements other than goodwill (in thousands).

September 30, 2016	Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Trust Preferred Securities	$1,661	Discounted cash flow	Discount rate	13.4%
			Constant prepayment rate (1)	1.3%
			Cumulative projected prepayments	22.4%
			Probability of default	0.5%
			Projected cures given deferral	100.0%
			Loss severity	97.6%
Impaired loans (collateral dependent)	$9,647	Third party valuations	Discount to reflect realizable value	0%-40%(20%)
Foreclosed assets held for sale	$1,821	Third party valuations	Discount to reflect realizable value less estimated selling costs	0%-40%(35%)

December 31, 2015	Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Trust Preferred Securities	$1,906	Discounted cash flow	Discount rate	11.4%
			Constant prepayment rate (1)	1.3%
			Cumulative projected prepayments	23.6%
			Probability of default	0.4%
			Projected cures given deferral	100.0%
			Loss severity	97.3%
Impaired loans (collateral dependent)	$294	Third party valuations	Discount to reflect realizable value	0%-40%(20%)
Foreclosed assets held for sale	$423	Third party valuations	Discount to reflect realizable value less estimated selling costs	0%-40%(35%)

(1) Every five years

Other. The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying balance sheets at amounts other than fair value.

Cash and Cash Equivalents, Federal Funds Sold, Interest Receivable and Federal Reserve and Federal Home Loan Bank Stock. The carrying amount approximates fair value.

Certificates of Deposit Investments. The fair value of certificates of deposit investments is estimated using a discounted cash flow calculation that applies the rates currently offered for deposits of similar remaining maturities.

Held-to-Maturity Securities. Fair Value is based on quoted market prices, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Loans Held for Sale. Loans expected to be sold are classified as held for sale and are recorded at the lower of aggregate cost or market value.

Loans. For loans with floating interest rates, it is assumed that the estimated fair values generally approximate the carrying amount balances. Fixed rate loans have been valued using a discounted present value of projected cash flow. The discount rate used in these calculations is the current rate at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. The carrying amount of accrued interest approximates its fair value.

Deposits. Deposits include demand deposits, savings accounts, NOW accounts and certain money market deposits. The carrying amount of these deposits approximates fair value. The fair value of fixed-maturity time deposits is estimated using a discounted cash flow calculation that applies the rates currently offered for deposits of similar remaining maturities.

Securities Sold Under Agreements to Repurchase. The fair value of securities sold under agreements to repurchased is estimated using a discounted cash flow calculation that applies the rates currently offered for deposits of similar remaining maturities.

Interest Payable. The carrying amount approximates fair value.

Junior Subordinated Debentures, Federal Home Loan Bank Borrowings and Other Borrowings. Rates currently available to the Company for debt with similar terms and remaining maturities are used to estimate the fair value of existing debt.

The following tables present estimated fair values of the Company’s financial instruments at September 30, 2016 and December 31, 2015 in accordance with FAS 107-1 and APB 28-1, codified with ASC 805 (in thousands):

	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
September 30, 2016					
Financial Assets					
Cash and due from banks	$108,919	$108,919	$108,919	$—	$—
Federal funds sold	14,118	14,118	14,118	—	—
Certificates of deposit investments	26,270	26,313	—	26,313	—
Available-for-sale securities	556,626	556,626	110	554,855	1,661
Held-to-maturity securities	101,679	102,648	—	102,648	—
Loans held for sale	3,584	3,584	—	3,584	—
Loans net of allowance for loan losses	1,787,000	1,767,461	—	—	1,767,461
Interest receivable	10,271	10,271	—	10,271	—
Federal Reserve Bank stock	3,949	3,949	—	3,949	—
Federal Home Loan Bank stock	4,389	4,389	—	4,389	—
Financial Liabilities					
Deposits	$2,265,259	$2,265,734	$—	$1,883,315	$382,419
Securities sold under agreements to repurchase	127,432	127,442	—	127,442	—
Interest payable	593	593	—	593	—
Federal Home Loan Bank borrowings	50,109	50,968	—	50,968	—
Other borrowings	22,000	22,000	—	22,000	—
Junior subordinated debentures	23,892	16,757	—	16,757	—

	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
December 31, 2015					
Financial Assets					
Cash and due from banks	$115,292	$115,292	$115,292	$ —	$ —
Federal funds sold	492	492	492	—	—
Certificates of deposit investments	25,000	25,056	—	25,056	—
Available-for-sale securities	518,848	518,848	64	516,878	1,906
Held-to-maturity securities	85,208	85,737	—	85,737	—
Loans held for sale	968	968	—	968	—
Loans net of allowance for loan losses	1,266,345	1,265,126	—	—	1,265,126
Interest receivable	8,085	8,085	—	8,085	—
Federal Reserve Bank stock	2,272	2,272	—	2,272	—
Federal Home Loan Bank stock	3,391	3,391	—	3,391	—
Financial Liabilities					