LAKELAND FINANCIAL CORP
Form 10-Q
May 10, 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 March 31, 2016

OR

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

For the transition period from ____________ to _____________

LAKELAND FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

| | | |
|---|---|---|
| Indiana | 0-11487 | 35-1559596 |
| (State or Other Jurisdiction of Incorporation or Organization) | (Commission File Number) | (IRS Employer Identification No.) |

202 East Center Street, P.O. Box 1387, Warsaw, Indiana 46581-1387
(Address of Principal Executive Offices)(Zip Code)

(574) 267-6144
(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 Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes X No _

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer _ 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 Exchange Act).
Yes _ No X

Number of shares of common stock outstanding at April 30, 2016: 16,696,834

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ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS (in thousands except share data)

| | March 31, 2016 (Unaudited) | December 31, 2015 |
|---|---|---|
| ASSETS | | |
| Cash and due from banks | $63,849 | $67,484 |
| Short-term investments | 16,889 | 13,190 |
| Total cash and cash equivalents | 80,738 | 80,674 |
| | | |
| Securities available for sale (carried at fair value) | 485,263 | 478,071 |
| Real estate mortgage loans held for sale | 2,186 | 3,294 |
| | | |
| Loans, net of allowance for loan losses of $43,284 and $43,610 | 3,070,016 | 3,037,319 |
| | | |
| Land, premises and equipment, net | 48,628 | 46,684 |
| Bank owned life insurance | 70,043 | 69,698 |
| Federal Reserve and Federal Home Loan Bank stock | 7,668 | 7,668 |
| Accrued interest receivable | 10,030 | 9,462 |
| Goodwill | 4,970 | 4,970 |
| Other assets | 29,365 | 28,446 |
| Total assets | $3,808,907 | $3,766,286 |
| | | |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| | | |
| LIABILITIES | | |
| Noninterest bearing deposits | $660,318 | $715,093 |
| Interest bearing deposits | 2,590,417 | 2,468,328 |
| Total deposits | 3,250,735 | 3,183,421 |
| | | |
| Short-term borrowings | | |
| Securities sold under agreements to repurchase | 59,504 | 69,622 |
| Other short-term borrowings | 35,000 | 70,000 |
| Total short-term borrowings | 94,504 | 139,622 |
| | | |
| Long-term borrowings | 32 | 34 |
| Subordinated debentures | 30,928 | 30,928 |
| Accrued interest payable | 4,212 | 3,773 |
| Other liabilities | 21,533 | 15,607 |
| Total liabilities | 3,401,944 | 3,373,385 |
| | | |
| STOCKHOLDERS' EQUITY | | |
| Common stock: 90,000,000 shares authorized, no par value | | |
| 16,696,834 shares issued and 16,596,745 outstanding as of March 31, 2016 | | |

| | | |
|---|---|---|
| 16,641,651 shares issued and 16,546,044 outstanding as of December 31, 2015 | 99,962 | 99,123 |
| Retained earnings | 302,202 | 294,002 |
| Accumulated other comprehensive income | 7,363 | 2,142 |
| Treasury stock, at cost (2016 - 100,089 shares, 2015 - 95,607 shares) | (2,653) | (2,455) |
| Total stockholders' equity | 406,874 | 392,812 |
| Noncontrolling interest | 89 | 89 |
| Total equity | 406,963 | 392,901 |
| Total liabilities and equity | $3,808,907 | $3,766,286 |

The accompanying notes are an integral part of these consolidated financial statements.

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CONSOLIDATED STATEMENTS OF INCOME (unaudited - in thousands except share and per share data)

| | Three Months Ended March 31, 2016 | 2015 |
|---|---|---|
| NET INTEREST INCOME | | |
| Interest and fees on loans | | |
| Taxable | $29,630 | $26,257 |
| Tax exempt | 111 | 117 |
| Interest and dividends on securities | | |
| Taxable | 2,546 | 2,448 |
| Tax exempt | 895 | 829 |
| Interest on short-term investments | 28 | 13 |
| Total interest income | 33,210 | 29,664 |
| | | |
| Interest on deposits | 4,195 | 3,648 |
| Interest on borrowings | | |
| Short-term | 147 | 60 |
| Long-term | 286 | 256 |
| Total interest expense | 4,628 | 3,964 |
| | | |
| NET INTEREST INCOME | 28,582 | 25,700 |
| | | |
| Provision for loan losses | 0 | 0 |
| | | |
| NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES | 28,582 | 25,700 |
| | | |
| NONINTEREST INCOME | | |
| Wealth advisory fees | 1,160 | 1,184 |
| Investment brokerage fees | 288 | 492 |
| Service charges on deposit accounts | 2,780 | 2,374 |
| Loan, insurance and service fees | 1,838 | 1,569 |
| Merchant card fee income | 497 | 416 |
| Bank owned life insurance income | 173 | 375 |
| Other income | (72) | 954 |
| Mortgage banking income | 327 | 389 |
| Net securities gains | 52 | 42 |
| Total noninterest income | 7,043 | 7,795 |
| | | |
| NONINTEREST EXPENSE | | |
| Salaries and employee benefits | 9,605 | 9,723 |
| Net occupancy expense | 1,096 | 1,084 |
| Equipment costs | 901 | 916 |
| Data processing fees and supplies | 2,032 | 1,767 |
| Corporate and business development | 857 | 790 |
| FDIC insurance and other regulatory fees | 523 | 486 |
| Professional fees | 827 | 689 |
| Other expense | 1,543 | 1,446 |

| | | |
|---|---|---|
| Total noninterest expense | 17,384 | 16,901 |
| | | |
| INCOME BEFORE INCOME TAX EXPENSE | 18,241 | 16,594 |
| Income tax expense | 5,962 | 5,458 |
| NET INCOME | $12,279 | $11,136 |
| | | |
| BASIC WEIGHTED AVERAGE COMMON SHARES | 16,679,835 | 16,590,285 |
| BASIC EARNINGS PER COMMON SHARE | $0.74 | $0.67 |
| DILUTED WEIGHTED AVERAGE COMMON SHARES | 16,885,204 | 16,789,497 |
| DILUTED EARNINGS PER COMMON SHARE | $0.73 | $0.66 |

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited - in thousands)

| | Three months ended March 31, | |
|---|---|---|
| | 2016 | 2015 |
| Net income | $12,279 | $11,136 |
| Other comprehensive income | | |
| Change in securities available for sale: | | |
| Unrealized holding gain on securities available for sale arising during the period | 7,547 | 3,662 |
| Reclassification adjustment for gains included in net income | (52) | (42) |
| Net securities gain activity during the period | 7,495 | 3,620 |
| Tax effect | (2,306) | (1,443) |
| Net of tax amount | 5,189 | 2,177 |
| Defined benefit pension plans: | | |
| Net gain (loss) on defined benefit pension plans | 0 | (276) |
| Amortization of net actuarial loss | 54 | 61 |
| Net gain (loss) activity during the period | 54 | (215) |
| Tax effect | (22) | 77 |
| Net of tax amount | 32 | (138) |
| Total other comprehensive income, net of tax | 5,221 | 2,039 |
| Comprehensive income | $17,500 | $13,175 |

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (unaudited - in thousands except share and per share data)

| | Common Stock Shares | Common Stock Stock | Retained Earnings | Accumulated Other Comprehensive Income | Treasury Stock | Total Stockholders' Equity |
|---|---|---|---|---|---|---|
| Balance at January 1, 2015 | 16,465,621 | $96,121 | $263,345 | $3,830 | $(2,000) | $361,296 |
| Comprehensive income: | | | | | | |
| Net income | | | 11,136 | | | 11,136 |
| Other comprehensive income, net of tax | | | | 2,039 | | 2,039 |
| Cash dividends declared, $0.21 per share | | | (3,477) | | | (3,477) |
| Treasury shares purchased under deferred directors' plan | (4,730) | 191 | | | (191) | 0 |
| Stock activity under equity compensation plans | 60,364 | (597) | | | | (597) |
| Stock based compensation expense | | 353 | | | | 353 |
| Balance at March 31, 2015 | 16,521,255 | $96,068 | $271,004 | $5,869 | $(2,191) | $370,750 |
| | | | | | | |
| Balance at January 1, 2016 | 16,546,044 | $99,123 | $294,002 | $2,142 | $(2,455) | $392,812 |
| Comprehensive income: | | | | | | |
| Net income | | | 12,279 | | | 12,279 |
| Other comprehensive income, net of tax | | | | 5,221 | | 5,221 |
| Cash dividends declared, $0.245 per share | | | (4,079) | | | (4,079) |
| Treasury shares purchased under deferred directors' plan | (4,482) | 198 | | | (198) | 0 |
| Stock activity under equity compensation plans | 55,183 | (143) | | | | (143) |
| Stock based compensation expense | | 784 | | | | 784 |
| Balance at March 31, 2016 | 16,596,745 | $99,962 | $302,202 | $7,363 | $(2,653) | $406,874 |

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited - in thousands)

| Three Months Ended March 31 | 2016 | 2015 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income | $12,279 | $11,136 |
| Adjustments to reconcile net income to net cash from operating activities: | | |
| Depreciation | 983 | 956 |
| Net (gain) loss on sale and write down of other real estate owned | 0 | (12) |
| Amortization of loan servicing rights | 145 | 142 |
| Loans originated for sale | (10,341) | (16,679) |
| Net gain on sales of loans | (339) | (361) |
| Proceeds from sale of loans | 11,666 | 16,249 |
| Net gain on sales of premises and equipment | 0 | (3) |
| Net gain on sales and calls of securities available for sale | (52) | (42) |
| Net securities amortization | 695 | 1,193 |
| Stock based compensation expense | 784 | 353 |
| Earnings on life insurance | (174) | (375) |
| Tax benefit of stock award exercises | (482) | (12) |
| Net change: | | |
| Interest receivable and other assets | (3,293) | 83 |
| Interest payable and other liabilities | 6,595 | 3,848 |
| Total adjustments | 6,187 | 5,340 |
| Net cash from operating activities | 18,466 | 16,476 |
| | | |
| Cash flows from investing activities: | | |
| Proceeds from sale of securities available for sale | 6,929 | 7,787 |
| Proceeds from maturities, calls and principal paydowns of securities available for sale | 19,700 | 19,464 |
| Purchases of securities available for sale | (26,969) | (26,069) |
| Purchase of life insurance | (179) | (149) |
| Net increase in total loans | (32,730) | (10,672) |
| Proceeds from sales of land, premises and equipment | 0 | 6 |
| Purchases of land, premises and equipment | (2,927) | (1,414) |
| Proceeds from sales of other real estate | 0 | 16 |
| Net cash from investing activities | (36,176) | (11,031) |

| | | |
|---|---|---|
| Cash flows from financing activities: | | |
| Net increase in total deposits | 67,314 | 121,119 |
| Net decrease in short-term borrowings | (45,118) | (99,890) |
| Payments on long-term borrowings | (2) | (1) |
| Common dividends paid | (4,079) | (3,477) |
| Payments related to equity incentive plans | (143) | (597) |
| Purchase of treasury stock | (198) | (191) |
| Net cash from financing activities | 17,774 | 16,963 |
| Net change in cash and cash equivalents | 64 | 22,408 |
| Cash and cash equivalents at beginning of the period | 80,674 | 90,638 |
| Cash and cash equivalents at end of the period | $80,738 | $113,046 |
| Cash paid during the period for: | | |
| Interest | $4,188 | $3,318 |
| Income taxes | 0 | 104 |
| Supplemental non-cash disclosures: | | |
| Loans transferred to other real estate owned | 33 | 194 |

The accompanying notes are an integral part of these consolidated financial statements.

NOTE 1. BASIS OF PRESENTATION

This report is filed for Lakeland Financial Corporation (the “Company”) and its wholly owned subsidiaries, Lake City Bank (the “Bank”) and LCB Risk Management, a captive insurance company. Also included in this report is the Bank’s wholly owned subsidiary, LCB Investments II, Inc. (“LCB Investments”), which manages the Bank’s investment portfolio. LCB Investments also owns LCB Funding, Inc. (“LCB Funding”), a real estate investment trust. All significant inter-company balances and transactions have been eliminated in consolidation.

The unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and with the instructions for Form 10-Q. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements and are unaudited. In the opinion of management, all adjustments (all of which are normal and recurring in nature) considered necessary for a fair presentation have been included. Operating results for the three-month period ending March 31, 2016 are not necessarily indicative of the results that may be expected for any subsequent reporting periods, including the year ending December 31, 2016. The Company’s 2015 Annual Report on Form 10-K should be read in conjunction with these statements.

NOTE 2. SECURITIES

Information related to the fair value and amortized cost of securities available for sale and the related gross unrealized gains and losses recognized in accumulated other comprehensive income is provided in the tables below.

| (dollars in thousands) | Amortized Cost | Gross Unrealized Gain | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| March 31, 2016 | | | | |
| U.S. Treasury securities | $988 | $46 | $0 | $1,034 |
| U.S. government sponsored agencies | 7,132 | 59 | 0 | 7,191 |
| Agency residential mortgage-backed securities | 350,450 | 9,539 | (262) | 359,727 |
| State and municipal securities | 113,030 | 4,448 | (167) | 117,311 |
| Total | $471,600 | $14,092 | $(429) | $485,263 |
| | | | | |
| December 31, 2015 | | | | |
| U.S. Treasury securities | $988 | $15 | $0 | $1,003 |
| U.S. government sponsored agencies | 7,178 | 19 | (77) | 7,120 |
| Agency residential mortgage-backed securities | 357,984 | 5,087 | (2,399) | 360,672 |
| State and municipal securities | 105,753 | 3,773 | (250) | 109,276 |
| Total | $471,903 | $8,894 | $(2,726) | $478,071 |

Information regarding the fair value and amortized cost of available for sale debt securities by maturity as of March 31, 2016 is presented below. Maturity information is based on contractual maturity for all securities other than mortgage-backed securities. Actual maturities of securities may differ from contractual maturities because borrowers may have the right to prepay the obligation without a prepayment penalty.

| (dollars in thousands) | Amortized Cost | Fair Value |
|---|---|---|
| Due in one year or less | $2,895 | $2,939 |
| Due after one year through five years | 20,132 | 20,834 |
| Due after five years through ten years | 47,500 | 49,987 |
| Due after ten years | 50,623 | 51,776 |
| | 121,150 | 125,536 |
| Mortgage-backed securities | 350,450 | 359,727 |
| Total debt securities | $471,600 | $485,263 |

Securities proceeds, gross gains and gross losses are presented below.

| (dollars in thousands) | Three months ended March 31, 2016 | 2015 |
|---|---|---|
| Sales of securities available for sale | | |
| Proceeds | $6,929 | $7,787 |
| Gross gains | 65 | 42 |
| Gross losses | 13 | 0 |

The Company sold four securities with a total book value of $6.9 million and a total fair value of $7.0 million during the first three months of 2016. The Company sold two securities with a total book value of $7.7 million and a total fair value of $7.8 million during the first three months of 2015.

Purchase premiums or discounts are recognized in interest income using the interest method over the terms of the securities or over the estimated lives of mortgage-backed securities. Gains and losses on sales are based on the amortized cost of the security sold and recorded on the trade date.

Securities with carrying values of $193.1 million and $122.7 million were pledged as of March 31, 2016 and December 31, 2015, respectively, as collateral for securities sold under agreements to repurchase, borrowings from the Federal Home Loan Bank and for other purposes as permitted or required by law.

Information regarding securities with unrealized losses as of March 31, 2016 and December 31, 2015 is presented below. The tables divide the securities between those with unrealized losses for less than twelve months and those with unrealized losses for twelve months or more.

| | Less than 12 months | | 12 months or more | | Total | |
|---|---|---|---|---|---|---|
| (dollars in thousands) | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| March 31, 2016 | | | | | | |
| Agency residential mortgage-backed securities | $9,481 | $(34) | $28,551 | $(228) | $38,032 | $(262) |
| State and municipal securities | 12,527 | (80) | 3,587 | (87) | 16,114 | (167) |
| Total temporarily impaired | $22,008 | $(114) | $32,138 | $(315) | $54,146 | $(429) |
| | | | | | | |
| December 31, 2015 | | | | | | |
| U.S. government sponsored agencies | $0 | $0 | $3,895 | $(77) | $3,895 | $(77) |
| Agency residential mortgage-backed securities | 151,792 | (1,521) | 30,116 | (878) | 181,908 | (2,399) |
| State and municipal securities | 11,364 | (78) | 8,326 | (172) | 19,690 | (250) |
| Total temporarily impaired | $163,156 | $(1,599) | $42,337 | $(1,127) | $205,493 | $(2,726) |

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The total number of securities with unrealized losses as of March 31, 2016 and December 31, 2015 is presented below.

| | Less than 12 months | 12 months or more | Total |
|---|---|---|---|
| March 31, 2016 | | | |
| Agency residential mortgage-backed securities | 6 | 10 | 16 |
| State and municipal securities | 13 | 4 | 17 |
| Total temporarily impaired | 19 | 14 | 33 |
| | | | |
| December 31, 2016 | | | |
| U.S. government sponsored agencies | 0 | 1 | 1 |
| Agency residential mortgage-backed securities | 46 | 9 | 55 |
| State and municipal securities | 21 | 12 | 33 |
| Total temporarily impaired | 67 | 22 | 89 |

The following factors are considered in determining whether or not the impairment of these securities is other-than-temporary. In making this determination, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer, as well as the underlying fundamentals of the relevant market and the outlook for such market in the near future. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement and 2) OTTI related to other factors, which is recognized in other comprehensive income. Credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. For equity securities, the entire amount of impairment is recognized through earnings. As of March 31, 2016 and December 31, 2015, ninety-nine percent of the securities in the Company’s portfolio are backed by the U.S. government, government agencies, government sponsored agencies or are A-rated or better, except for certain non-local or local municipal securities, which are not rated. For the government, government-sponsored agency and municipal securities, management did not believe that there would be credit losses or that full principal would not be received. Management considered the unrealized losses on these securities to be primarily interest rate driven and does not expect material losses given current market conditions unless the securities are sold. However, at this time management does not have the intent to sell, and it is more likely than not that the Company will not be required to sell these securities before the recovery of their amortized cost basis.

NOTE 3. LOANS

| (dollars in thousands) | March 31, 2016 | | | December 31, 2015 | | |
|---|---|---|---|---|---|---|
| Commercial and industrial loans: | | | | | | |
| Working capital lines of credit loans | $591,136 | 19.0 | % | $581,025 | 18.9 | % |
| Non-working capital loans | 614,619 | 19.7 | | 598,487 | 19.4 | |
| Total commercial and industrial loans | 1,205,755 | 38.7 | | 1,179,512 | 38.3 | |
| | | | | | | |
| Commercial real estate and multi-family residential loans: | | | | | | |
| Construction and land development loans | 206,378 | 6.6 | | 230,719 | 7.5 | |
| Owner occupied loans | 447,620 | 14.4 | | 412,026 | 13.4 | |
| Nonowner occupied loans | 408,273 | 13.1 | | 407,883 | 13.2 | |
| Multifamily loans | 104,303 | 3.4 | | 79,425 | 2.6 | |
| Total commercial real estate and multi-family residential loans | 1,166,574 | 37.5 | | 1,130,053 | 36.7 | |
| | | | | | | |
| Agri-business and agricultural loans: | | | | | | |
| Loans secured by farmland | 144,687 | 4.6 | | 164,375 | 5.3 | |
| Loans for agricultural production | 128,456 | 4.1 | | 141,719 | 4.6 | |
| Total agri-business and agricultural loans | 273,143 | 8.8 | | 306,094 | 9.9 | |
| | | | | | | |
| Other commercial loans | 83,617 | 2.7 | | 85,075 | 2.8 | |
| Total commercial loans | 2,729,089 | 87.7 | | 2,700,734 | 87.7 | |
| | | | | | | |
| Consumer 1-4 family mortgage loans: | | | | | | |
| Closed end first mortgage loans | 161,701 | 5.2 | | 158,062 | 5.1 | |
| Open end and junior lien loans | 160,734 | 5.2 | | 163,700 | 5.3 | |
| Residential construction and land development loans | 8,488 | 0.3 | | 9,341 | 0.3 | |
| Total consumer 1-4 family mortgage loans | 330,923 | 10.6 | | 331,103 | 10.7 | |
| | | | | | | |
| Other consumer loans | 53,327 | 1.7 | | 49,113 | 1.6 | |
| Total consumer loans | 384,250 | 12.3 | | 380,216 | 12.3 | |
| Subtotal | 3,113,339 | 100.0 | % | 3,080,950 | 100.0 | % |
| Less: Allowance for loan losses | (43,284) | | | (43,610) | | |
| Net deferred loan fees | (39) | | | (21) | | |
| Loans, net | $3,070,016 | | | $3,037,319 | | |

The recorded investment in loans does not include accrued interest.

The Company had $326,000 in residential real estate loans in process of foreclosure as of March 31, 2016.

NOTE 4. ALLOWANCE FOR LOAN LOSSES AND CREDIT QUALITY

The following tables present the activity in the allowance for loan losses by portfolio segment for the three-month periods ended March 31, 2016 and 2015:

| (dollars in thousands) | Commercial and Industrial | Commercial Real Estate and Multifamily Residential | Agri-business and Agricultural | Other Commercial | Consumer 1-4 Family Mortgage | Other Consumer | Unallocated | Total |
|---|---|---|---|---|---|---|---|---|
| Three Months Ended March 31, 2016 | | | | | | | | |
| Beginning balance, January 1 | $21,564 | $12,473 | $2,445 | $574 | $3,395 | $319 | $2,840 | $43,610 |
| Provision for loan losses | (947) | 436 | 4 | (15) | 196 | 42 | 284 | 0 |
| Loans charged-off | (214) | (168) | 0 | 0 | (38) | (45) | 0 | (465) |
| Recoveries | 62 | 11 | 5 | 0 | 33 | 28 | 0 | 139 |
| Net loans charged-off | (152) | (157) | 5 | 0 | (5) | (17) | 0 | (326) |
| Ending balance | $20,465 | $12,752 | $2,454 | $559 | $3,586 | $344 | $3,124 | $43,284 |

| (dollars in thousands) | Commercial and Industrial | Commercial Real Estate and Multifamily Residential | Agri-business and Agricultural | Other Commercial | Consumer 1-4 Family Mortgage | Other Consumer | Unallocated | Total |
|---|---|---|---|---|---|---|---|---|
| Three Months Ended March 31, 2015 | | | | | | | | |
| Beginning balance | $22,785 | $14,153 | $1,790 | $276 | $3,459 | $483 | $3,316 | $46,262 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Provision for loan losses | 556 | (338) | (167) | 244 | (25) | (35) | (235) | 0 |
| Loans charged-off | (369) | (30) | 0 | (122) | (134) | (53) | 0 | (708) |
| Recoveries | 52 | 19 | 4 | 0 | 13 | 35 | 0 | 123 |
| Net loans charged-off | (317) | (11) | 4 | (122) | (121) | (18) | 0 | (585) |
| Ending balance | $23,024 | $13,804 | $1,627 | $398 | $3,313 | $430 | $3,081 | $45,677 |

The following tables present the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of March 31, 2016 and December 31, 2015:

| (dollars in thousands) | Commercial and Industrial | Commercial Real Estate and Multifamily Residential | Agri-business and Agricultural | Other Commercial | Consumer 1-4 Family Mortgage | Other Consumer | Unallocated | Total |
|---|---|---|---|---|---|---|---|---|
| March 31, 2016 | | | | | | | | |
| Allowance for loan losses: | | | | | | | | |
| Ending allowance balance attributable to loans: | | | | | | | | |
| Individually evaluated for impairment | $2,541 | $430 | $0 | $4 | $415 | $49 | $0 | $3,439 |
| Collectively evaluated for impairment | 17,924 | 12,322 | 2,454 | 555 | 3,171 | 295 | 3,124 | 39,845 |
| Total ending allowance balance | $20,465 | $12,752 | $2,454 | $559 | $3,586 | $344 | $3,124 | $43,284 |
| | | | | | | | | |
| Loans: | | | | | | | | |
| Loans individually evaluated for impairment | $5,988 | $9,061 | $471 | $12 | $1,827 | $59 | $0 | $17,418 |
| Loans collectively evaluated for impairment | 1,199,911 | 1,156,427 | 272,752 | 83,600 | 330,021 | 53,171 | 0 | 3,095,882 |
| Total ending loans balance | $1,205,899 | $1,165,488 | $273,223 | $83,612 | $331,848 | $53,230 | $0 | $3,113,300 |

Commercial
Real Estate

| (dollars in thousands) | Commercial and Industrial | Commercial Real Estate and Multi-family Residential | Agri-business and Agricultural | Other Commercial | Consumer 1-4 Family Mortgage | Other Consumer | Unallocated | Total |
|---|---|---|---|---|---|---|---|---|
| December 31, 2015 | | | | | | | | |
| Allowance for loan losses: | | | | | | | | |
| Ending allowance balance attributable to loans: | | | | | | | | |
| Individually evaluated for impairment | $2,781 | $465 | $0 | $5 | $358 | $50 | $0 | $3,659 |
| Collectively evaluated for impairment | 18,783 | 12,008 | 2,445 | 569 | 3,037 | 269 | 2,840 | 39,951 |
| Total ending allowance balance | $21,564 | $12,473 | $2,445 | $574 | $3,395 | $319 | $2,840 | $43,610 |
| | | | | | | | | |
| Loans: | | | | | | | | |
| Loans individually evaluated for impairment | $8,286 | $9,823 | $471 | $12 | $1,927 | $60 | $0 | $20,579 |
| Loans collectively evaluated for impairment | 1,171,407 | 1,119,150 | 305,707 | 85,059 | 330,072 | 48,955 | 0 | 3,060,350 |
| Total ending loans balance | $1,179,693 | $1,128,973 | $306,178 | $85,071 | $331,999 | $49,015 | $0 | $3,080,929 |

The following table presents loans individually evaluated for impairment by class of loans as of March 31, 2016:

| (dollars in thousands) | Unpaid Principal Balance | Recorded Investment | Allowance for Loan Losses Allocated |
|---|---|---|---|
| With no related allowance recorded: | | | |
| Commercial and industrial loans: | | | |
| Working capital lines of credit loans | $20 | $20 | $0 |
| Non-working capital loans | 2,351 | 584 | 0 |
| Commercial real estate and multi-family residential loans: | | | |
| Owner occupied loans | 2,701 | 2,520 | 0 |
| Nonowner occupied loans | 4,760 | 4,763 | 0 |
| Agri-business and agricultural loans: | | | |
| Loans secured by farmland | 969 | 471 | 0 |
| Consumer 1-4 family loans: | | | |
| Closed end first mortgage loans | 72 | 34 | 0 |
| With an allowance recorded: | | | |
| Commercial and industrial loans: | | | |
| Working capital lines of credit loans | 1,406 | 1,405 | 625 |
| Non-working capital loans | 4,379 | 3,979 | 1,916 |
| Commercial real estate and multi-family residential loans: | | | |
| Construction and land development loans | 339 | 339 | 46 |
| Owner occupied loans | 942 | 941 | 235 |
| Nonowner occupied loans | 185 | 115 | 20 |
| Multifamily loans | 383 | 383 | 129 |
| Other commercial loans | 12 | 12 | 4 |
| Consumer 1-4 family mortgage loans: | | | |
| Closed end first mortgage loans | 1,611 | 1,544 | 391 |
| Open end and junior lien loans | 249 | 249 | 24 |
| Other consumer loans | 59 | 59 | 49 |
| Total | $20,438 | $17,418 | $3,439 |

The following table presents loans individually evaluated for impairment by class of loans as of December 31, 2015:

| (dollars in thousands) | Unpaid Principal Balance | Recorded Investment | Allowance for Loan Losses Allocated |
|---|---|---|---|
| With no related allowance recorded: | | | |
| Commercial and industrial loans: | | | |
| Working capital lines of credit loans | $20 | $20 | $0 |
| Non-working capital loans | 2,390 | 623 | 0 |
| Commercial real estate and multi-family residential loans: | | | |
| Owner occupied loans | 3,762 | 3,223 | 0 |
| Nonowner occupied loans | 4,894 | 4,898 | 0 |
| Agri-business and agricultural loans: | | | |
| Loans secured by farmland | 969 | 471 | 0 |
| Consumer 1-4 family loans: | | | |
| Closed end first mortgage loans | 45 | 45 | 0 |
| With an allowance recorded: | | | |
| Commercial and industrial loans: | | | |
| Working capital lines of credit loans | 1,318 | 1,318 | 535 |
| Non-working capital loans | 8,617 | 6,325 | 2,246 |
| Commercial real estate and multi-family residential loans: | | | |
| Construction and land development loans | 364 | 364 | 71 |
| Owner occupied loans | 949 | 949 | 232 |
| Multifamily loans | 389 | 389 | 162 |
| Other commercial loans | 12 | 12 | 5 |
| Consumer 1-4 family mortgage loans: | | | |
| Closed end first mortgage loans | 1,695 | 1,629 | 331 |
| Open end and junior lien loans | 253 | 253 | 27 |
| Other consumer loans | 60 | 60 | 50 |
| Total | $25,737 | $20,579 | $3,659 |

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The following table presents loans individually evaluated for impairment by class of loans as of and for the three-month period ended March 31, 2016:

| (dollars in thousands) | Average Recorded Investment | Interest Income Recognized | Cash Basis Interest Income Recognized |
|---|---|---|---|
| With no related allowance recorded: | | | |
| Commercial and industrial loans: | | | |
| Working capital lines of credit loans | $20 | $0 | $0 |
| Non-working capital loans | 673 | 0 | 0 |
| Commercial real estate and multi-family residential loans: | | | |
| Owner occupied loans | 2,724 | 0 | 0 |
| Nonowner occupied loans | 4,808 | 29 | 23 |
| Agri-business and agricultural loans: | | | |
| Loans secured by farmland | 471 | 0 | 0 |
| Consumer 1-4 family loans: | | | |
| Closed end first mortgage loans | 47 | 0 | 0 |
| With an allowance recorded: | | | |
| Commercial and industrial loans: | | | |
| Working capital lines of credit loans | 1,352 | 5 | 5 |
| Non-working capital loans | 4,635 | 34 | 34 |
| Commercial real estate and multi-family residential loans: | | | |
| Construction and land development loans | 339 | 3 | 3 |
| Owner occupied loans | 942 | 0 | 0 |
| Nonowner occupied loans | 77 | 0 | 0 |
| Multifamily loans | 385 | 5 | 5 |
| Other commercial loans | 12 | 0 | 0 |
| Consumer 1-4 family mortgage loans: | | | |
| Closed end first mortgage loans | 1,627 | 15 | 11 |
| Open end and junior lien loans | 251 | 0 | 0 |
| Other consumer loans | 59 | 1 | 1 |

| | | | |
|---|---|---|---|
| Total | $18,422 | $92 | $82 |

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The following table presents loans individually evaluated for impairment by class of loans as of and for the three-month period ended March 31, 2015:

| (dollars in thousands) | Average Recorded Investment | Interest Income Recognized | Cash Basis Interest Income Recognized |
|---|---|---|---|
| With no related allowance recorded: | | | |
| Commercial and industrial loans: | | | |
| Working capital lines of credit loans | $21 | $0 | $0 |
| Non-working capital loans | 364 | 1 | 1 |
| Commercial real estate and multi-family residential loans: | | | |
| Construction and land development loans | 526 | 0 | 0 |
| Owner occupied loans | 544 | 0 | 0 |
| Nonowner occupied loans | 2,517 | 28 | 29 |
| Agri-business and agricultural loans: | | | |
| Loans secured by farmland | 283 | 0 | 0 |
| Consumer 1-4 family loans: | | | |
| Closed end first mortgage loans | 160 | 0 | 0 |
| Open end and junior lien loans | 338 | 0 | 0 |
| Residential construction loans | 42 | 0 | 0 |
| Other consumer loans | 1 | 0 | 0 |
| With an allowance recorded: | | | |
| Commercial and industrial loans: | | | |
| Working capital lines of credit loans | 1,012 | 9 | 7 |
| Non-working capital loans | 12,566 | 122 | 123 |
| Commercial real estate and multi-family residential loans: | | | |
| Construction and land development loans | 448 | 4 | 4 |
| Owner occupied loans | 5,649 | 21 | 22 |
| Nonowner occupied loans | 3,269 | 0 | 0 |
| Agri-business and agricultural loans: | | | |
| Loans secured by farmland | 201 | 0 | 0 |
| Other commercial loans | 10 | 0 | 0 |
| Consumer 1-4 family mortgage loans: | | | |
| Closed end first mortgage loans | 3,014 | 17 | 14 |
| Open end and junior lien loans | 34 | 0 | 0 |

| | | | |
|---|---|---|---|
| Other consumer loans | 121 | 1 | 1 |
| Total | $31,120 | $203 | $201 |

The following table presents the aging of the recorded investment in past due loans as of March 31, 2016 by class of loans:

| (dollars in thousands) | Loans Not Past Due | 30-89 Days Past Due | Greater than 90 Days Past Due | Nonaccrual | Total Past Due | Total |
|---|---|---|---|---|---|---|
| Commercial and industrial loans: | | | | | | |
| Working capital lines of credit loans | $589,464 | $30 | $0 | $999 | $1,029 | $590,493 |
| Non-working capital loans | 610,595 | 2,898 | 0 | 1,913 | 4,811 | 615,406 |
| Commercial real estate and multi-family residential loans: | | | | | | |
| Construction and land development loans | 206,025 | 0 | 0 | 0 | 0 | 206,025 |
| Owner occupied loans | 443,821 | 0 | 0 | 3,453 | 3,453 | 447,274 |
| Nonowner occupied loans | 407,681 | 0 | 0 | 264 | 264 | 407,945 |
| Multifamily loans | 104,244 | 0 | 0 | 0 | 0 | 104,244 |
| Agri-business and agricultural loans: | | | | | | |
| Loans secured by farmland | 144,227 | 0 | 0 | 471 | 471 | 144,698 |
| Loans for agricultural production | 128,525 | 0 | 0 | 0 | 0 | 128,525 |
| Other commercial loans | 83,612 | 0 | 0 | 0 | 0 | 83,612 |
| Consumer 1-4 family mortgage loans: | | | | | | |
| Closed end first mortgage loans | 160,268 | 911 | 0 | 227 | 1,138 | 161,406 |
| Open end and junior lien loans | 161,623 | 104 | 0 | 249 | 353 | 161,976 |
| Residential construction loans | 8,466 | 0 | 0 | 0 | 0 | 8,466 |
| Other consumer loans | 53,146 | 84 | 0 | 0 | 84 | 53,230 |
| Total | $3,101,697 | $4,027 | $0 | $7,576 | $11,603 | $3,113,300 |

The following table presents the aging of the recorded investment in past due loans as of December 31, 2015 by class of loans:

| (dollars in thousands) | Loans Not Past Due | 30-89 Days Past Due | Greater than 90 Days Past Due | Nonaccrual | Total Past Due | Total |
|---|---|---|---|---|---|---|
| Commercial and industrial loans: | | | | | | |
| Working capital lines of credit loans | $579,081 | $350 | $0 | $913 | $1,263 | $580,344 |
| Non-working capital loans | 595,154 | 0 | 0 | 4,195 | 4,195 | 599,349 |
| Commercial real estate and multi-family residential loans: | | | | | | |
| Construction and land development loans | 230,336 | 0 | 0 | 0 | 0 | 230,336 |
| Owner occupied loans | 407,229 | 310 | 0 | 4,172 | 4,482 | 411,711 |
| Nonowner occupied loans | 404,146 | 423 | 0 | 3,000 | 3,423 | 407,569 |
| Multi-family loans | 79,357 | 0 | 0 | 0 | 0 | 79,357 |
| Agri-business and agricultural loans: | | | | | | |
| Loans secured by farmland | 163,911 | 0 | 0 | 471 | 471 | 164,382 |
| Loans for agricultural production | 141,706 | 90 | 0 | 0 | 90 | 141,796 |
| Other commercial loans | 85,071 | 0 | 0 | 0 | 0 | 85,071 |
| Consumer 1-4 family mortgage loans: | | | | | | |
| Closed end first mortgage loans | 156,525 | 1,187 | 0 | 49 | 1,236 | 157,761 |
| Open end and junior lien loans | 164,582 | 83 | 0 | 253 | 336 | 164,918 |
| Residential construction loans | 9,320 | 0 | 0 | 0 | 0 | 9,320 |
| Other consumer loans | 48,687 | 328 | 0 | 0 | 328 | 49,015 |
| Total | $3,065,105 | $2,771 | $0 | $13,053 | $15,824 | $3,080,929 |

Troubled Debt Restructurings:

Troubled debt restructured loans are included in the totals for impaired loans. The Company has allocated $2.0 million and $2.3 million of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of March 31, 2016 and December 31, 2015. The Company is not committed to lend additional funds to debtors whose loans have been modified in a troubled debt restructuring.

| (dollars in thousands) | March 31, 2016 | December 31, 2015 |
|---|---|---|
| Accruing troubled debt restructured loans | $8,590 | $6,260 |
| Nonaccrual troubled debt restructured loans | 5,519 | 10,914 |
| Total troubled debt restructured loans | $14,109 | $17,174 |

During the quarter ended March 31, 2016, certain loans were modified as troubled debt restructurings. The modified terms of these loans include one or a combination of the following: inadequate compensation for the terms of the restructure or renewal; a modification of the repayment terms which delays principal repayment for some period; or renewal terms offered to borrowers in financial distress where no additional credit enhancements were obtained at the time of renewal.

Additional concessions were granted to borrowers with previously identified troubled debt restructured loans during the period. The loans to two of the borrowers are for commercial real estate buildings where the collateral value and cash flows from the companies occupying the buildings do not support the loans with recorded investments of $542,000. The other loans were to a borrower engaged in land development, where the aggregate recorded investment totaled $484,000. These concessions are not included in table below.

| | | | | Modified Repayment Terms | |
|---|---|---|---|---|---|
| (dollars in thousands) | Number of Loans | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment | Number of Loans | Extension Period or Range (in months) |
| Troubled Debt Restructurings | | | | | |
| Commercial real estate and multi-family residential loans: | | | | | |
| Owner occupied loans | 1 | $335 | $335 | 1 | 15 |
| Total | 1 | $335 | $335 | 1 | 15 |

For the period ended March 31, 2016, the commercial real estate and multi-family residential loan troubled debt restructuring described above increased the allowance for loan losses by $11,000.

No charge-offs resulted from any troubled debt restructurings described above during the period ending March 31, 2016.

During the quarter ended March 31, 2015 one loan was modified as a troubled debt restructuring. There were renewal terms offered to the one borrower under financial duress which did not require additional compensation or consideration, and the terms offered would not have been readily available in the marketplace for loans bearing similar risk profiles. In this instance, it was determined that a concession had been granted. It is difficult to quantify the concession granted due to an absence of readily available market terms to be used for comparison. The loan to the borrower is for a commercial real estate building where the collateral value and cash flows from the company occupying the building did not support the loan with a recorded investment of $788,000.

The following table presents loans by class modified as new troubled debt restructurings that occurred during the quarter ended March 31, 2015:

| (dollars in thousands) | Number of Loans | All Modifications Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment |
|---|---|---|---|
| Troubled Debt Restructurings | | | |
| Commercial real estate and multi-family residential loans: | | | |
| Owner occupied loans | 1 | $788 | $788 |
| Total | 1 | $788 | $788 |

For the period ended March 31, 2015, the commercial real estate and multi-family residential loan troubled debt restructuring described above increased the allowance for loan losses by $6,000.

No charge-offs resulted from the troubled debt restructuring described above during the three-month period ended March 31, 2015.

There were no troubled debt restructurings that had payment defaults within the twelve months following modification during the three month period ended March 31, 2016 and the three month period ended March 31, 2015.

Credit Quality Indicators:

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, credit documentation, public information and current economic trends, among other factors. The Company analyzes commercial loans individually by classifying the loans as to credit risk. This analysis is performed on a quarterly basis for Special Mention, Substandard and Doubtful grade loans and annually on Pass grade loans over $150,000.

The Company uses the following definitions for risk ratings:

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

Substandard. Loans classified as Substandard are inadequately protected by the current net worth 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 Company 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 characteristics that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, 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 to be Pass rated loans with the exception of consumer troubled debt restructurings which are evaluated and listed with Substandard commercial grade loans and consumer nonaccrual loans which are evaluated individually and listed with Not Rated loans. Loans listed as Not Rated are consumer loans or commercial loans with consumer characteristics included in groups of homogenous loans which are analyzed for credit quality indicators utilizing delinquency status. As of March 31, 2016, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

| (dollars in thousands) | Pass | Special Mention | Substandard | Doubtful | Not Rated | Total |
|---|---|---|---|---|---|---|
| Commercial and industrial loans: | | | | | | |
| Working capital lines of credit loans | $547,736 | $32,071 | $10,686 | $0 | $0 | $590,493 |
| Non-working capital loans | 570,026 | 32,443 | 9,563 | 0 | 3,374 | 615,406 |
| Commercial real estate and multi-family residential loans: | | | | | | |
| Construction and land development loans | 203,447 | 2,222 | 356 | 0 | 0 | 206,025 |
| Owner occupied loans | 405,284 | 31,477 | 10,513 | 0 | 0 | 447,274 |
| Nonowner occupied loans | 401,824 | 3,655 | 2,466 | 0 | 0 | 407,945 |
| Multifamily loans | 103,861 | 0 | 383 | 0 | 0 | 104,244 |
| Agri-business and agricultural loans: | | | | | | |
| Loans secured by farmland | 144,227 | 0 | 471 | 0 | 0 | 144,698 |
| Loans for agricultural production | 128,525 | 0 | 0 | 0 | 0 | 128,525 |
| Other commercial loans | 83,596 | 0 | 11 | 0 | 5 | 83,612 |
| Consumer 1-4 family mortgage loans: | | | | | | |
| Closed end first mortgage loans | 47,526 | 126 | 1,174 | 0 | 112,580 | 161,406 |
| Open end and junior lien loans | 6,206 | 0 | 1,616 | 0 | 154,154 | 161,976 |
| Residential construction loans | 0 | 0 | 0 | 0 | 8,466 | 8,466 |
| Other consumer loans | 13,302 | 0 | 59 | 0 | 39,869 | 53,230 |
| Total | $2,655,560 | $101,994 | $37,298 | $0 | $318,448 | $3,113,300 |

As of December 31, 2015, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

| (dollars in thousands) | Pass | Special Mention | Substandard | Doubtful | Not Rated | Total |
|---|---|---|---|---|---|---|
| Commercial and industrial loans: | | | | | | |
| Working capital lines of credit loans | $538,899 | $32,601 | $8,844 | $0 | $0 | $580,344 |
| Non-working capital loans | 549,771 | 35,910 | 10,566 | 0 | 3,102 | 599,349 |
| Commercial real estate and multi-family residential loans: | | | | | | |
| Construction and land development loans | 227,996 | 2,340 | 0 | 0 | 0 | 230,336 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Owner occupied loans | 378,847 | 23,522 | 9,342 | 0 | 0 | 411,711 |
| Nonowner occupied loans | 394,387 | 10,953 | 2,229 | 0 | 0 | 407,569 |
| Multi-family loans | 78,968 | 0 | 389 | 0 | 0 | 79,357 |
| Agri-business and agricultural loans: | | | | | | |
| Loans secured by farmland | 163,911 | 0 | 471 | 0 | 0 | 164,382 |
| Loans for agricultural production | 141,796 | 0 | 0 | 0 | 0 | 141,796 |
| Other commercial loans | 85,056 | 0 | 12 | 0 | 3 | 85,071 |
| Consumer 1-4 family mortgage loans: | | | | | | |
| Closed end first mortgage loans | 43,231 | 126 | 1,769 | 0 | 112,635 | 157,761 |
| Open end and junior lien loans | 8,373 | 0 | 1,616 | 0 | 154,929 | 164,918 |
| Residential construction loans | 0 | 0 | 0 | 0 | 9,320 | 9,320 |
| Other consumer loans | 13,940 | 0 | 60 | 0 | 35,015 | 49,015 |
| Total | $2,625,175 | $105,452 | $35,298 | $0 | $315,004 | $3,080,929 |

NOTE 5. FAIR VALUE DISCLOSURES

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

| | |
|---|---|
| Level 1 | Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date. |
| Level 2 | Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data. |
| Level 3 | Significant unobservable inputs that reflect a company’s own assumptions about the assumptions that market participants would use in pricing an asset or liability. |

The Company used the following methods and significant assumptions to estimate the fair value of each type of financial instrument:

Securities: Securities available for sale are valued primarily by a third party pricing service. The fair values of securities available for sale are determined on a recurring basis by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs) or pricing models which utilize significant observable inputs such as matrix pricing. This is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities’ relationship to other benchmark quoted securities (Level 2 inputs). These models utilize the market approach with standard inputs that include, but are not limited to, benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data. For certain municipal securities that are not rated and observable inputs about the specific issuer are not available, fair values are estimated using observable data from other municipal securities presumed to be similar or other market data on other non-rated municipal securities (Level 3 inputs).

The Company’s Controlling Department, which is responsible for all accounting and SEC compliance, and the Company’s Treasury Department, which is responsible for investment portfolio management and asset/liability modeling, are the two areas that determine the Company’s valuation policies and procedures. Both of these areas report directly to the Executive Vice President and Chief Financial Officer of the Company. For assets or liabilities that may be considered for Level 3 fair value measurement on a recurring basis, these two departments and the Executive Vice President and Chief Financial Officer determine the appropriate level of the assets or liabilities under consideration. If there are assets or liabilities that are determined to be Level 3 by this group, the Risk Management Committee of the Company and the Audit Committee of the Board of Directors are made aware of such assets at their next scheduled meeting.

Securities pricing is obtained from a third party pricing service and a representative sample of security prices is tested at least annually against prices from another third party provider and reviewed with a market value price tolerance variance of +/-3%. If any securities fall outside the tolerance threshold, they are reviewed in more detail to determine why the variance exists. The percentage deviation of the market value exceptions to the total market value of the sample is applied to the entire portfolio to determine if the exceptions are material and additional security prices need to be tested. Changes in market value are reviewed monthly in aggregate yield by security type and any material differences are reviewed to determine why they exist. At least annually, the pricing methodology of the pricing service is received and reviewed to support the fair value levels used by the Company. A detailed pricing evaluation is requested and reviewed on any security determined to be fair valued using unobservable inputs by the pricing service.

Mortgage banking derivatives: The fair value of mortgage banking derivatives are based on observable market data as of the measurement date (Level 2).

Interest rate swap derivatives: Our derivatives are traded in an over-the-counter market where quoted market prices are not always available. Therefore, the fair values of derivatives are determined using quantitative models that utilize multiple market inputs. The inputs will vary based on the type of derivative, but could include interest rates, prices and indices to generate continuous yield or pricing curves, prepayment rates, and volatility factors to value the position. The majority of market inputs are actively quoted and can be validated through external sources, including brokers, market transactions and third-party pricing services. The fair value of interest rate swap derivatives is determined by pricing or valuation models using observable market data as of the measurement date (Level 2).

Impaired loans: Impaired loans with specific allocations of the allowance for loan losses are generally based on the fair value of the underlying collateral if repayment is expected solely from the collateral. Fair value is determined using several methods. Generally, the fair value of real estate is based on appraisals by qualified third party appraisers. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and result in a Level 3 classification of the inputs for determining fair value. In addition, the Company's management routinely applies internal discount factors to the value of appraisals used in the fair value evaluation of impaired loans. The deductions to the appraisals take into account changing business factors and market conditions, as well as value impairment in cases where the appraisal date predates a likely change in market conditions. Commercial real estate is generally discounted from its appraised value by 0-50% with the higher discounts applied to real estate that is determined to have a thin trading market or to be specialized collateral. In addition to real estate, the Company's management evaluates other types of collateral as follows: (a) raw and finished inventory is discounted from its cost or book value by 35-65%, depending on the marketability of the goods; (b) finished goods are generally discounted by 30-60%, depending on the ease of marketability, cost of transportation or scope of use of the finished good; (c) work in process inventory is typically discounted by 50-100%, depending on the length of manufacturing time, types of components used in the completion process, and the breadth of the user base; (d) equipment is valued at a percentage of depreciated book value or recent appraised value, if available, and is typically discounted at 30-70% after various considerations including age and condition of the equipment, marketability, breadth of use, and whether the equipment includes unique components or add-ons; and (e) marketable securities are discounted by 10-30%, depending on the type of investment, age of valuation report and general market conditions. This methodology is based on a market approach and typically results in a Level 3 classification of the inputs for determining fair value.

Mortgage servicing rights: As of March 31, 2016 the fair value of the Company's Level 3 servicing assets for residential mortgage loans was $3.1 million, none of which are currently impaired and therefore are carried at amortized cost. These residential mortgage loans have a weighted average interest rate of 3.94%, a weighted average maturity of 19 years and are secured by homes generally within the Company's market area, which is primarily Northern Indiana. A valuation model is used to estimate fair value by stratifying the portfolios on the basis of certain risk characteristics, including loan type and interest rate. Impairment is estimated based on an income approach. The inputs used include estimates of prepayment speeds, discount rate, cost to service, escrow account earnings, contractual servicing fee income, ancillary income, late fees, and float income. The most significant assumption used to value mortgage servicing rights is prepayment rate. Prepayment rates are estimated based on published industry consensus prepayment rates. The most significant unobservable assumption is the discount rate. At March 31, 2016, the constant prepayment speed (PSA) used was 212 and the discount rate used was 9.4%. At December 31, 2015, the PSA used was 181 and the discount rate used was 9.4%.

Other real estate owned: Nonrecurring adjustments to certain commercial and residential real estate properties classified as other real estate owned are measured at the lower of carrying amount or fair value, less costs to sell. Fair values are generally based on third party appraisals of the property and are reviewed by the Company's internal appraisal officer. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable properties used to determine value. Such adjustments are usually significant and result in a Level 3 classification. In addition, the Company's management may apply discount factors to the appraisals to take into account changing business factors and market conditions, as well as value impairment in cases where the appraisal date predates a likely change in market conditions. In cases where the carrying amount exceeds the fair value, less costs to sell, an impairment loss is recognized.

Real estate mortgage loans held for sale: Real estate mortgage loans held for sale are carried at the lower of cost or fair value, as determined by outstanding commitments, from third party investors, and result in a Level 2 classification.

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The table below presents the balances of assets measured at fair value on a recurring basis:

| | March 31, 2016 | | | |
|---|---|---|---|---|
| | Fair Value Measurements Using | | | Assets |
| (dollars in thousands) | Level 1 | Level 2 | Level 3 | at Fair Value |
| Assets | | | | |
| U.S. Treasury securities | $ 1,034 | $ 0 | $ 0 | $ 1,034 |
| U.S. government sponsored agency securities | 0 | 7,191 | 0 | 7,191 |
| Mortgage-backed securities | 0 | 359,727 | 0 | 359,727 |
| State and municipal securities | 0 | 116,462 | 849 | 117,311 |
| Total Securities | 1,034 | 483,380 | 849 | 485,263 |
| Mortgage banking derivative | 0 | 316 | 0 | 316 |
| Interest rate swap derivative | 0 | 5,295 | 0 | 5,295 |
| Total assets | $ 1,034 | $ 488,991 | $ 849 | $ 490,874 |
| | | | | |
| Liabilities | | | | |
| Mortgage banking derivative | 0 | 20 | 0 | 20 |
| Interest rate swap derivative | 0 | 5,624 | 0 | 5,624 |
| Total liabilities | $ 0 | $ 5,644 | $ 0 | $ 5,644 |

| | December 31, 2015 | | | |
|---|---|---|---|---|
| | Fair Value Measurements Using | | | Assets |
| (dollars in thousands) | Level 1 | Level 2 | Level 3 | at Fair Value |
| Assets | | | | |
| U.S. Treasury securities | $ 1,003 | $ 0 | $ 0 | $ 1,003 |
| U.S. government sponsored agency securities | 0 | 7,120 | 0 | 7,120 |
| Mortgage-backed securities | 0 | 360,672 | 0 | 360,672 |
| State and municipal securities | 0 | 108,725 | 551 | 109,276 |
| Total Securities | 1,003 | 476,517 | 551 | 478,071 |
| Mortgage banking derivative | 0 | 165 | 0 | 165 |
| Interest rate swap derivative | 0 | 1,732 | 0 | 1,732 |
| Total assets | $ 1,003 | $ 478,414 | $ 551 | $ 479,968 |
| | | | | |
| Liabilities | | | | |
| Mortgage banking derivative | 0 | 1 | 0 | 1 |
| Interest rate swap derivative | 0 | 1,748 | 0 | 1,748 |
| Total liabilities | $ 0 | $ 1,749 | $ 0 | $ 1,749 |

There were no transfers between Level 1 and Level 2 during the three months ended March 31, 2016 and there were no transfers between Level 1 and Level 2 during 2015.

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The table below presents a reconciliation of all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the nine months ended March 31, 2016 and 2015:

| | State and Municipal Securities | |
|---|---|---|
| (dollars in thousands) | 2016 | 2015 |
| Balance of recurring Level 3 assets at January 1 | $ 551 | $ 850 |
| Transfers into Level 3 | 339 | 0 |
| Changes in fair value of securities included in other comprehensive income | (1) | 0 |
| Principal payments | (40) | (40) |
| Balance of recurring Level 3 assets at March 31 | $ 849 | $ 810 |

The fair values of two municipal securities with a fair value of $339,000 as of March 31, 2016 were transferred from Level 2 and into Level 3 because of a lack of observable market data for these investments.  The Company's policy is to recognize transfers as of the end of the reporting period.  As a result the fair value for these municipal securities was transferred on March 31, 2016.  The municipal securities measured at fair value included below are non-rated Indiana and Ohio municipal revenue bonds and are not actively traded.

Quantitative Information about Level 3 Fair Value Measurements

| (dollars in thousands) | Fair Value at 3/31/2016 | Valuation Technique | Unobservable Input | Range of Inputs (Average) |
|---|---|---|---|---|
| State and municipal securities | $ 849 | Price to type, par, call | Discount to benchmark index | 0-6% (3.28%) |

Quantitative Information about Level 3 Fair Value Measurements

| (dollars in thousands) | Fair Value at 12/31/2015 | Valuation Technique | Unobservable Input | Range of Inputs (Average) |
|---|---|---|---|---|
| State and municipal securities | $ 551 | Price to type, par, call | Discount to benchmark index | 0-5% (2.82%) |

The primary methodology used in the fair value measurement of the Company's state and municipal securities classified as Level 3 is a discount to the AAA municipal benchmark index. Significant increases or (decreases) in this index as well as the degree to which the security differs in ratings, coupon, call and duration will result in a higher or (lower) fair value measurement for those securities that are not callable. For those securities that are continuously callable, a slight premium to par is used.

The table below presents the balances of assets measured at fair value on a nonrecurring basis:

| | March 31, 2016 | | | |
|---|---|---|---|---|
| | Fair Value Measurements Using | | | Assets |
| (dollars in thousands) | Level 1 | Level 2 | Level 3 | at Fair Value |
| Assets | | | | |
| Impaired loans: | | | | |
| Commercial and industrial loans: | | | | |
| Working capital lines of credit loans | $ 0 | $ 0 | $ 749 | $ 749 |
| Non-working capital loans | 0 | 0 | 1,882 | 1,882 |
| Commercial real estate and multi-family residential loans: | | | | |
| Construction and land development loans | 0 | 0 | 293 | 293 |
| Owner occupied loans | 0 | 0 | 706 | 706 |
| Nonowner occupied loans | 0 | 0 | 95 | 95 |
| Multifamily loans | 0 | 0 | 254 | 254 |
| Other commercial loans | 0 | 0 | 7 | 7 |
| Consumer 1-4 family mortgage loans: | | | | |
| Closed end first mortgage loans | 0 | 0 | 371 | 371 |
| Open end and junior lien loans | 0 | 0 | 225 | 225 |
| Total impaired loans | $ 0 | $ 0 | $ 4,582 | $ 4,582 |
| Other real estate owned | 0 | 0 | 75 | 75 |
| Total assets | $ 0 | $ 0 | $ 4,657 | $ 4,657 |

| | December 31, 2015 | | | |
|---|---|---|---|---|
| | Fair Value Measurements Using | | | Assets |
| (dollars in thousands) | Level 1 | Level 2 | Level 3 | at Fair Value |
| Assets | | | | |
| Impaired loans: | | | | |
| Commercial and industrial loans: | | | | |
| Working capital lines of credit loans | $ 0 | $ 0 | $ 753 | $ 753 |
| Non-working capital loans | 0 | 0 | 2,083 | 2,083 |
| Commercial real estate and multi-family residential loans: | | | | |
| Construction and land development loans | 0 | 0 | 293 | 293 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Owner occupied loans | | 0 | | 0 | | 717 | | 717 |
| Multifamily loans | | 0 | | 0 | | 227 | | 227 |
| Other commercial loans | | 0 | | 0 | | 7 | | 7 |
| Consumer 1-4 family mortgage loans: | | | | | | | | |
| Closed end first mortgage loans | | 0 | | 0 | | 245 | | 245 |
| Open end and junior lien loans | | 0 | | 0 | | 226 | | 226 |
| Total impaired loans | $ | 0 | $ | 0 | $ | 4,551 | $ | 4,551 |
| Other real estate owned | | 0 | | 0 | | 75 | | 75 |
| Total assets | $ | 0 | $ | 0 | $ | 4,626 | $ | 4,626 |

The following table presents the valuation methodology and unobservable inputs for Level 3 assets measured at fair value on a non-recurring basis at March 31, 2016:

| (dollars in thousands) | Fair Value | Valuation Methodology | Unobservable Inputs | Average | Range of Inputs |
|---|---|---|---|---|---|
| Impaired loans: | | | | | |
| Commercial and industrial | $ 2,631 | Collateral based measurements | Discount to reflect current market conditions and ultimate collectability | 42% | (7% - 100%) |
| Impaired loans: | | | | | |
| Commercial real estate | 1,348 | Collateral based measurements | Discount to reflect current market conditions and ultimate collectability | 24% | (13% - 54%) |
| Impaired loans: | | | | | |
| Other commercial | 7 | Collateral based measurements | Discount to reflect current market conditions and ultimate collectability | 35% | |
| Impaired loans: | | | | | |
| Consumer 1-4 family mortgage | 596 | Collateral based measurements | Discount to reflect current market conditions and ultimate collectability | 25% | (10% - 71%) |
| Other real estate owned | 75 | Appraisals | Discount to reflect current market conditions | 49% | |

The following table presents the valuation methodology and unobservable inputs for Level 3 assets measured at fair value on a non-recurring basis at December 31, 2015:

| (dollars in thousands) | Fair Value | Valuation Methodology | Unobservable Inputs | Average | Range of Inputs |
|---|---|---|---|---|---|
| Impaired loans: | | | | | |
| Commercial and industrial | $ 2,836 | Collateral based measurements | Discount to reflect current market conditions | 46% | (5% - 100%) |

| | | | | | |
|---|---|---|---|---|---|
| | | | and ultimate collectability | | |
| Impaired loans: | | | | | |
| Commercial real estate | 1,237 | Collateral based measurements | Discount to reflect current market conditions and ultimate collectability | 31% | (19% - 53%) |
| Impaired loans: | | | | | |
| Other commercial | 7 | Collateral based measurements | Discount to reflect current market conditions and ultimate collectability | 43% | |
| Impaired loans: | | | | | |
| Consumer 1-4 family mortgage | 471 | Collateral based measurements | Discount to reflect current market conditions and ultimate collectability | 26% | (11% - 42%) |
| Other real estate owned | 75 | Appraisals | Discount to reflect current market conditions | 49% | |

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a gross carrying amount of $7.1 million, with a valuation allowance of $2.5 million at March 31, 2016, resulting in a net increase in the provision for loan losses of $100,000 in the three months ended March 31, 2016. At March 31, 2015, impaired loans had a gross carrying amount of $14.4 million, with a valuation allowance of $2.8 million, resulting in a net reduction in the provision for loan losses of $700,000 in the three months ended March 31, 2015.

Other real estate owned measured at fair value less costs to sell, at both March 31, 2016 and March 31, 2015, had a net carrying amount of $75,000, which is made up of the outstanding balance of $147,000, net of a valuation allowance of $72,000, all of which was written down during 2012.

The following table contains the estimated fair values and the related carrying values of the Company’s financial instruments. Items which are not financial instruments are not included.

| | March 31, 2016 | | | | |
|---|---|---|---|---|---|
| | Carrying | Estimated Fair Value | | | |
| (dollars in thousands) | Value | Level 1 | Level 2 | Level 3 | Total |
| Financial Assets: | | | | | |
| Cash and cash equivalents | $ 80,738 | $ 78,483 | $ 2,260 | $ 0 | $ 80,743 |
| Securities available for sale | 485,263 | 1,034 | 483,380 | 849 | 485,263 |
| Real estate mortgages held for sale | 2,186 | 0 | 2,237 | 0 | 2,237 |
| Loans, net | 3,070,016 | 0 | 0 | 3,069,500 | 3,069,500 |
| Federal Home Loan Bank stock | 4,248 | N/A | N/A | N/A | N/A |
| Federal Reserve Bank stock | 3,420 | N/A | N/A | N/A | N/A |
| Accrued interest receivable | 10,030 | 8 | 1,993 | 8,029 | 10,030 |
| Financial Liabilities: | | | | | |
| Certificates of deposit | (1,115,126) | 0 | (1,121,429) | 0 | (1,121,429) |
| All other deposits | (2,135,609) | (2,135,609) | 0 | 0 | (2,135,609) |
| Securities sold under agreements | | | | | |
| to repurchase | (59,504) | 0 | (59,504) | 0 | (59,504) |
| Other short-term borrowings | (35,000) | 0 | (35,001) | 0 | (35,001) |
| Long-term borrowings | (32) | 0 | (35) | 0 | (35) |
| Subordinated debentures | (30,928) | 0 | 0 | (31,215) | (31,215) |
| Standby letters of credit | (317) | 0 | 0 | (317) | (317) |
| Accrued interest payable | (4,212) | (91) | (4,118) | (3) | (4,212) |

| | December 31, 2015 | | | | |
|---|---|---|---|---|---|
| | Carrying | Estimated Fair Value | | | |
| (dollars in thousands) | Value | Level 1 | Level 2 | Level 3 | Total |
| Financial Assets: | | | | | |
| Cash and cash equivalents | $ 80,674 | $ 79,074 | $ 1,602 | $ 0 | $ 80,676 |
| Securities available for sale | 478,071 | 1,003 | 476,517 | 551 | 478,071 |
| Real estate mortgages held for sale | 3,294 | 0 | 3,340 | 0 | 3,340 |
| Loans, net | 3,037,319 | 0 | 0 | 3,029,533 | 3,029,533 |
| Federal Home Loan Bank stock | 4,248 | N/A | N/A | N/A | N/A |
| Federal Reserve Bank stock | 3,420 | N/A | N/A | N/A | N/A |
| Accrued interest receivable | 9,462 | 3 | 2,301 | 7,158 | 9,462 |
| Financial Liabilities: | | | | | |
| Certificates of deposit | (997,514) | 0 | (1,002,452) | 0 | (1,002,452) |
| All other deposits | (2,185,907) | (2,185,907) | 0 | 0 | (2,185,907) |

| | | | | | |
|---|---|---|---|---|---|
| Securities sold under agreements | | | | | |
| to repurchase | (69,622) | 0 | (69,622) | 0 | (69,622) |
| Other short-term borrowings | (70,000) | 0 | (70,003) | 0 | (70,003) |
| Long-term borrowings | (34) | 0 | (37) | 0 | (37) |
| Subordinated debentures | (30,928) | 0 | 0 | (31,211) | (31,211) |
| Standby letters of credit | (381) | 0 | 0 | (381) | (381) |
| Accrued interest payable | (3,773) | (86) | (3,684) | (3) | (3,773) |

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The methods and assumptions, not previously presented, used to estimate fair values are described as follows:

Cash and cash equivalents - The carrying amount of cash and cash equivalents approximate fair value and are classified as Level 1, with the exception of certificates of deposits, which are estimated using discounted cash flow analysis using current market rates applied to the estimated life resulting in a Level 2 classification.

Loans, net – Fair values of loans, excluding loans held for sale, are estimated as follows: For variable rate loans, fair values are based on carrying values resulting in a Level 3 classification. Fair values for other loans are estimated using discounted cash flow analyses, using current market rates applied to the estimated life of the loan resulting in a Level 3 classification. Impaired loans are valued at the lower of cost or fair value as described previously. The methods utilized to estimate the fair value of loans do not necessarily represent an exit price.

Federal Home Loan Bank stock and Federal Reserve Bank stock– It is not practical to determine the fair value of Federal Home Loan Bank stock and Federal Reserve Bank stock due to restrictions placed on its transferability.

Certificates of deposit - Fair values of certificates of deposit are estimated using discounted cash flow analyses using current market rates applied to the estimated life resulting in a Level 2 classification.

All other deposits- The fair values for all other deposits other than certificates of deposit are equal to the amount payable on demand (the carrying value) resulting in a Level 1 classification.

Securities sold under agreements to repurchase – The carrying amount of borrowings under repurchase agreements approximates their fair values resulting in a Level 2 classification.

Federal funds purchased – The carrying amount of federal funds purchased approximates their fair values resulting in a Level 2 classification.

Other short-term borrowings – The fair value of other short-term borrowings is estimated using discounted cash flow analysis based on current borrowing rates resulting in a Level 2 classification.

Long-term borrowings – The fair value of long-term borrowings is estimated using discounted cash flow analyses based on current borrowing rates resulting in a Level 2 classification.

Subordinated debentures - The fair value of subordinated debentures is based on the rates currently available to the Company with similar term and remaining maturity and credit spread resulting in a Level 3 classification.

Standby letters of credit – The fair value of off-balance sheet items is based on the current fees and costs that would be charged to enter into or terminate such arrangements resulting in a Level 3 classification.

Accrued interest receivable/payable – The carrying amounts of accrued interest approximates fair value resulting in a Level 1, Level 2 or Level 3 classification which is consistent with its associated asset/liability.

NOTE 6. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Securities sold under agreements to repurchase represent collateralized borrowings with customers located primarily within the Company’s service area. These repurchase liabilities are not covered by federal deposit insurance and are secured by securities owned. The Company retains the right to substitute similar type securities and has the right to withdraw all excess collateral applicable to the repurchase liabilities whenever the collateral values are in excess of the related repurchase liabilities. However, as a means of mitigating market risk, the Company maintains excess collateral to cover normal changes in the repurchase liability by monitoring daily usage. The Company maintains control of the securities through the use of third-party safekeeping arrangements.

Securities sold under agreements to repurchase of $59.5 million and $69.6 million, which mature on demand, are secured by mortgage-backed securities with a carrying amount of $110.7 million and $117.5 million at March 31, 2016 and December 31, 2015, respectively. Additional information concerning recognition of these liabilities is disclosed in Note 8.

NOTE 7. EMPLOYEE BENEFIT PLANS

Components of net periodic benefit cost:

| | Three Months Ended March 31, | | | |
|---|---|---|---|---|
| | Pension Benefits | | SERP Benefits | |
| (dollars in thousands) | 2016 | 2015 | 2016 | 2015 |
| Interest cost | $26 | $26 | $12 | $11 |
| Expected return on plan assets | (35) | (35) | (18) | (19) |
| Recognized net actuarial (gain) loss | 34 | 40 | 20 | 21 |
| Net pension expense (benefit) | $25 | $31 | $14 | $13 |

The Company previously disclosed in its financial statements for the year ended December 31, 2015 that it expected to contribute $321,000 to its pension plan and $76,000 to its Supplemental Executive Retirement Plan ("SERP") in 2016. The Company has contributed $102,000 to its pension plan and $76,000 to its SERP as of March 31, 2016. The Company expects to contribute $219,000 to its pension plan during the remainder of 2016. The Company does not expect to make any additional contributions to its SERP during the remainder of 2016.

NOTE 8. OFFSETTING ASSETS AND LIABILITIES

The following tables summarize gross and net information about financial instruments and derivative instruments that are offset in the statement of financial position or that are subject to an enforceable master netting arrangement at March 31, 2016 and December 31, 2015.

| | March 31, 2016 | | | | | |
|---|---|---|---|---|---|---|
| | | | | Gross Amounts Not Offset in the Statement of Financial Position | | |
| (dollars in thousands) | Gross Amounts of Recognized Assets/ Liabilities | Gross Amounts Offset in the Statement of Financial Position | Net Amounts of Assets presented in the Statement of Financial Position | Financial Instruments | Cash Collateral Received | Net Amount |
| Assets | | | | | | |
| Interest Rate Swap Derivatives | $5,295 | $0 | $5,295 | $0 | $0 | $5,295 |
| Total Assets | $5,295 | $0 | $5,295 | $0 | $0 | $5,295 |
| Liabilities | | | | | | |
| Interest Rate Swap Derivatives | $5,624 | $0 | $5,624 | $0 | $(5,310) | $314 |
| | 59,504 | 0 | 59,504 | (59,504) | 0 | 0 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Repurchase Agreements | | | | | | |
| Total Liabilities | $65,128 | $0 | $65,128 | $(59,504) | $(5,310) | $314 |

| | December 31, 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Gross Amounts of Recognized Assets/ Liabilities | Gross Amounts Offset in the Statement of Financial Position | Net Amounts of Assets presented in the Statement of Financial Position | Gross Amounts Not Offset in the Statement of Financial Position | | |
| (dollars in thousands) | | | | Financial Instruments | Cash Collateral Received | Net Amount |
| Assets | | | | | | |
| Interest Rate Swap Derivatives | $1,732 | $0 | $1,732 | $0 | $0 | $1,732 |
| Total Assets | $1,732 | $0 | $1,732 | $0 | $0 | $1,732 |
| Liabilities | | | | | | |
| Interest Rate Swap Derivatives | $1,748 | $0 | $1,748 | $0 | $(1,660) | $88 |
| Repurchase Agreements | 69,622 | 0 | 69,622 | (69,622) | 0 | 0 |
| Total Liabilities | $71,370 | $0 | $71,370 | $(69,622) | $(1,660) | $88 |

If an event of default occurs causing an early termination of an interest rate swap derivative, any early termination amount payable to one party by the other party may be reduced by set-off against any other amount payable by the one party to the other party. If a default in performance of any obligation of a repurchase agreement occurs, each party will set-off property held in respect of transactions against obligations owing in respect of any other transactions.

NOTE 9. EARNINGS PER SHARE

Basic earnings per common share is net income available to common shareholders divided by the weighted average number of common shares outstanding during the period. Diluted earnings per common share includes the dilutive effect of additional potential common shares issuable under stock options, stock awards and warrants, none of which were antidilutive.

| | Three Months Ended March 31, | |
|---|---|---|
| | 2016 | 2015 |
| Weighted average shares outstanding for basic earnings per common share | 16,679,835 | 16,590,285 |
| Dilutive effect of stock options, awards and warrants | 205,369 | 199,212 |
| Weighted average shares outstanding for diluted earnings per common share | 16,885,204 | 16,789,497 |
| | | |
| Basic earnings per common share | $0.74 | $0.67 |
| Diluted earnings per common share | $0.73 | $0.66 |

NOTE 10. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following tables summarize the changes within each classification of accumulated other comprehensive income (loss) for the three months ended March 31, 2016 and the year ended December 31, 2015:

| (dollars in thousands) | Unrealized Gains and Losses on Available-for-Sales Securities | Defined Benefit Pension Items | Total |
|---|---|---|---|
| Balance at December 31, 2015 | $3,836 | $(1,694) | $2,142 |
| Other comprehensive income before reclassification | 5,220 | 0 | 5,220 |
| Amounts reclassified from accumulated other comprehensive income (loss) | (31) | 32 | 1 |
| Net current period other comprehensive income | 5,189 | 32 | 5,221 |
| Balance at March 31, 2016 | $9,025 | $(1,662) | $7,363 |

| (dollars in thousands) | Unrealized Gains and Losses on Available-for-Sales Securities | Defined Benefit Pension Items | Total |
|---|---|---|---|
| Balance at December 31, 2014 | $5,467 | $(1,637) | $3,830 |

| | | | |
|---|---|---|---|
| Other comprehensive income before reclassification | (1,606) | (204) | (1,810) |
| Amounts reclassified from accumulated other comprehensive income (loss) | (25) | 147 | 122 |
| Net current period other comprehensive income | (1,631) | (57) | (1,688) |
| Balance at December 31, 2015 | $3,836 | $(1,694) | $2,142 |

Reclassifications out of accumulated comprehensive income for the three months ended March 31, 2016 are as follows:

| Details about Accumulated Other Comprehensive Income Components | Amount Reclassified From Accumulated Other Comprehensive Income | Affected Line Item in the Statement Where Net Income is Presented |
|---|---|---|
| (dollars in thousands) | | |
| Unrealized gains and losses on available-for-sale securities | $52 | Net securities gains (losses) |
| Tax effect | (21) | Income tax expense |
| | 31 | Net of tax |
| Amortization of defined benefit pension items | (54) | Salaries and employee benefits |
| Tax effect | 22 | Income tax expense |
| | (32) | Net of tax |
| Total reclassifications for the period | $(1) | Net income |

Reclassifications out of accumulated comprehensive income for the three months ended March 31, 2015 are as follows:

| Details about Accumulated Other Comprehensive Income Components | Amount Reclassified From Accumulated Other Comprehensive Income | | Affected Line Item in the Statement Where Net Income is Presented |
|---|---|---|---|
| (dollars in thousands) | | | |
| Unrealized gains and losses on available-for-sale securities | $ | 42 | Net securities gains (losses) |
| Tax effect | | (17) | Income tax expense |
| | | 25 | Net of tax |
| Amortization of defined benefit pension items | | (61) | Salaries and employee benefits |
| Tax effect | | 24 | Income tax expense |
| | | (37) | Net of tax |
| Total reclassifications for the period | $ | (12) | Net income |

NOTE 11. NEW ACCOUNTING PRONOUNCEMENTS

In May 2014, the FASB issued new accounting guidance related to revenue recognition. This new standard will replace all current U.S. GAAP guidance on this topic and eliminate all industry-specific guidance. The new revenue recognition standard provides a unified model to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration for which the entity expects to be entitled in exchange for those goods or services. This guidance will be effective for the Company beginning January 1, 2018 and can be applied either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. Management is evaluating the impact of adopting this new accounting standard on our financial statements.

In January 2016, the FASB amended existing accounting guidance related to the recognition and measurement of financial assets and financial liabilities. These amendments make targeted improvements to U.S. GAAP as follows: (1) Require equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. However, 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 a similar investment of the same issuer. (2) Simplify the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. When a qualitative assessment indicates that impairment exists, an entity is required to measure the investment at fair value. (3) Eliminate the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities. (4) Eliminate the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet. (5) Require public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. (6) Require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. (7) Require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivable) on the balance sheet or the accompanying notes to the financial statements. (8) Clarify that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity’s other deferred tax assets. This guidance will be effective for the Company beginning January 1, 2018 and should be applied as a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The amendments related to equity securities without readily determinable fair values (including disclosure requirements) should be applied prospectively to equity investments that exist as of the date of adoption. Adopting this standard is not expected to have a significant impact on the Company’s financial condition or results of operations.

In February 2016, the FASB issued ASU No. 2016-02, “Leases.” This update, effective for the Company beginning January 1, 2019, will replace existing lease guidance in GAAP and will require lessees to recognize lease assets and lease liabilities on the balance sheet for all leases and disclose key information about leasing arrangements.  When implemented, lessees and lessors will be required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach.  Management is evaluating the impact of adopting this new accounting standard on our financial statements.

NOTE 12. SUBSEQUENT EVENTS

There were no subsequent events that would have a material impact on the financial statements presented in this Form 10-Q.

NOTE 13. RECLASSIFICATIONS

Certain amounts appearing in the financial statements and notes thereto for prior periods have been reclassified to conform with the current presentation. The reclassification had no effect on net income or stockholders’ equity as previously reported.

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

### OVERVIEW

Net income in the first three months of 2016 was $12.3 million, up 10.3% from $11.1 million for the comparable period of 2015. Diluted income per common share was $0.73 in the first three months of 2016, up 10.6% from $0.66 in the comparable period of 2015. Return on average total equity was 12.35% in the first three months of 2016 versus 12.32% in the comparable period of 2015. Return on average total assets was 1.30% in the first three months of 2016 versus 1.31% in the comparable period of 2015. The equity to average assets ratio was 10.49% in the first three months of 2016 versus 10.66% in the comparable period of 2015.

Total assets were $3.809 billion as of March 31, 2016 versus $3.766 billion as of December 31, 2015, an increase of $42.6 million, or 1.1%. This increase was primarily due to a $32.4 million increase in total loans.

### CRITICAL ACCOUNTING POLICIES

Certain of the Company's accounting policies are important to the portrayal of the Company's financial condition since they require management to make difficult, complex or subjective judgments, some of which may relate to matters that are inherently uncertain. Estimates associated with these policies are susceptible to material changes as a result of changes in facts and circumstances. Some of the facts and circumstances which could affect these judgments include changes in interest rates, in the performance of the economy or in the financial condition of borrowers. Management believes that its critical accounting policies include determining the allowance for loan losses and the valuation and other-than-temporary impairment of investment securities.

#### Allowance for Loan Losses

The Company maintains an allowance for loan losses to provide for probable incurred credit losses. Loan losses are charged against the allowance when management believes that the principal is uncollectable. Subsequent recoveries, if any, are credited to the allowance. Allocations of the allowance are made for specific loans and for pools of similar types of loans, although the entire allowance is available for any loan that, in management's judgment, should be charged against the allowance. A provision for loan losses is taken based on management's ongoing evaluation of the appropriate allowance balance. A formal evaluation of the adequacy of the loan loss allowance is conducted monthly. The ultimate recovery of all loans is susceptible to future market factors beyond the Company's control.

The level of loan loss provision is influenced by growth in the overall loan portfolio, emerging market risk, emerging concentration risk, commercial loan focus and large credit concentration, new industry lending activity, general economic conditions and historical loss analysis. In addition, management gives consideration to changes in the allocation for specific watch list credits in determining the appropriate level of the loan loss provision. Furthermore, management's overall view on credit quality is a factor in the determination of the provision.

The determination of the appropriate allowance is inherently subjective, as it requires significant estimates by management. The Company has an established process to determine the adequacy of the allowance for loan losses that generally includes consideration of the following factors: changes in the nature and volume of the loan portfolio, overall portfolio quality and current economic conditions that may affect the borrowers' ability to repay. Consideration is not limited to these factors although they represent the most commonly cited factors. With respect to specific allocation levels for individual credits, management considers the amounts and timing of expected future cash flows and the current valuation of collateral as the primary measures. Management also considers trends in adversely classified loans based upon an ongoing review of those credits. With respect to pools of similar loans, allocations are assigned based upon historical experience unless the rate of loss is expected to be greater than historical losses as noted below. A detailed analysis is performed on loans that are classified but determined not to be impaired which incorporates probability of default with a loss given default scenario to develop non-specific allocations for the loan pool. These allocations may be adjusted based on the other factors cited above. An appropriate level of general allowance for pooled loans is determined after considering the following: application of historical loss percentages, emerging market risk, commercial loan focus and large credit concentration, new industry lending activity and general economic conditions. It is also possible that the following could affect the overall process: social, political, economic and terrorist events or activities. All of these factors are susceptible to change, which may be significant. As a result of this detailed process, the allowance results in two forms of allocations, specific and general. These two components represent the total allowance for loan losses deemed adequate to cover probable losses inherent in the loan portfolio.

Commercial loans are subject to a dual standardized grading process administered by the credit administration function. These grade assignments are performed independent of each other and a consensus is reached by credit administration and the loan review officer. Specific allowances are established in cases where management has identified significant conditions or circumstances related to an individual credit that indicate the loan is impaired. Considerations with respect to specific allocations for these individual credits include, but are not limited to, the following: (a) does the customer's cash flow or net worth appear insufficient to repay the loan; (b) is there adequate collateral to repay the loan; (c) has the loan been criticized in a regulatory examination; (d) is the loan impaired; (e) are there other reasons where the ultimate collectability of the loan is in question; or (f) are there unique loan characteristics that require special monitoring.

Allocations are also applied to categories of loans considered not to be individually impaired, but for which the rate of loss is expected to be consistent with or greater than historical averages. Such allocations are based on past loss experience and information about specific borrower situations and estimated collateral values. In addition, general allocations are made for other pools of loans, including non-classified loans. These general pooled loan allocations are performed for portfolio segments of commercial and industrial, commercial real estate and multi-family, agri-business and agricultural, other commercial, consumer 1-4 family mortgage and other consumer loans, and loans within certain industry categories believed to present unique risk of loss. General allocations of the allowance are primarily made based on a three-year historical average for loan losses for these portfolios, subjectively adjusted for economic factors and portfolio trends.

Due to the imprecise nature of estimating the allowance for loan losses, the Company's allowance for loan losses includes an unallocated component. The unallocated component of the allowance for loan losses incorporates the Company's judgmental determination of inherent losses that may not be fully reflected in other allocations, including factors such as the level of classified credits, economic uncertainties, industry trends impacting specific portfolio segments, broad portfolio quality trends and trends in the composition of the Company's large commercial loan portfolio and related large dollar exposures to individual borrowers.

Valuation and Other-Than-Temporary Impairment of Investment Securities

The fair values of securities available for sale are determined on a recurring basis by obtaining quoted prices on nationally recognized securities exchanges or pricing models, which utilize significant observable inputs such as matrix pricing. This is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities. Different judgments and assumptions used in pricing could result in different estimates of value. The fair value of certain securities is determined using unobservable inputs, primarily observable inputs of similar securities.

At the end of each reporting period, securities held in the investment portfolio are evaluated on an individual security level for other-than-temporary impairment in accordance with current accounting guidance. Impairment is other-than-temporary if the decline in the fair value of the security is below its amortized cost and it is probable that all amounts due according to the contractual terms of a debt security will not be received.

Significant judgments are required in determining impairment, which includes making assumptions regarding the estimated prepayments, loss assumptions and the change in interest rates.

We consider the following factors when determining other-than-temporary impairment for a security or investment:

- the length of time and the extent to which the market value has been less than amortized cost;
- the financial condition and near-term prospects of the issuer;
- the underlying fundamentals of the relevant market and the outlook for such market for the near future; and

- our intent and ability to hold the security for a period of time sufficient to allow for any anticipated recovery in market value.

If, in management's judgment, other-than-temporary impairment exists, the cost basis of the security will be written down to the computed net present value, and the unrealized loss will be transferred from accumulated other comprehensive loss as an immediate reduction of current earnings (as if the loss had been realized in the period of other-than-temporary impairment). In addition, discount accretion will be discontinued on any bond that meets one or both of the following: (1) the rating by S&P, Moody's or Fitch decreases to below "A" and/or (2) the cash flow analysis on a security indicates that, under any scenario modeled by the third party, there is a potential to not receive the full amount invested in the security.

## RESULTS OF OPERATIONS

### Overview

Selected income statement information for the three months ended March 31, 2016 and 2015 is presented in the following table:

| | Three Months Ended March 31, | |
|---|---|---|
| (dollars in thousands) | 2016 | 2015 |
| Income Statement Summary: | | |
| Net interest income | $28,582 | $25,700 |
| Provision for loan losses | 0 | 0 |
| Noninterest income | 7,043 | 7,795 |
| Noninterest expense | 17,384 | 16,901 |
| Other Data: | | |
| Efficiency ratio (1) | 48.80% | 50.46% |
| Dilutive EPS | $0.73 | $0.66 |
| Tangible capital ratio | 10.61% | 10.58% |
| Net charge-offs(recoveries) to average loans | 0.04% | 0.09% |
| Net interest margin | 3.26% | 3.27% |
| Noninterest income to total revenue | 19.77% | 23.27% |

(1) Noninterest expense/Net interest income plus Noninterest income

### Net Income

Net income was $12.3 million in the first three months of 2016, an increase of $1.1 million, or 10.3%, versus net income of $11.1 million in the first three months of 2015. Net interest income increased $2.9 million, or 11.2%, to $28.6 million versus $25.7 million in the first three months of 2015. Net interest income increased primarily due to a 10.6% increase in average earning assets. Significantly affecting average earning assets during 2016 was an increase of 12.6% in the commercial loan portfolio, which reflects our continuing strategic focus on commercial lending. The net interest margin was 3.26% in the first three months of 2016 versus 3.27% in 2015. The lower margin reflected a modest increase in the cost of funds offset by increased security yields.

Net Interest Income

The following table sets forth consolidated information regarding average balances and rates:

| | Three Months Ended March 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2016 | | | 2015 | | |
| (fully tax equivalent basis, dollars in thousands) | Average Balance | Interest Income | Yield (1)/ Rate | Average Balance | Interest Income | Yield (1)/ Rate |
| Earning Assets | | | | | | |
| Loans: | | | | | | |
| Taxable (2)(3) | $3,077,441 | $29,630 | 3.87% | $2,741,894 | $26,257 | 3.88% |
| Tax exempt (1) | 11,907 | 166 | 5.61 | 12,953 | 175 | 5.48 |
| Investments: (1) | | | | | | |
| Available for sale | 478,537 | 3,906 | 3.28 | 477,245 | 3,705 | 3.15 |
| Short-term investments | 6,210 | 4 | 0.26 | 4,581 | 1 | 0.09 |
| Interest bearing deposits | 16,727 | 24 | 0.58 | 10,049 | 12 | 0.48 |
| Total earning assets | $3,590,822 | $33,730 | 3.78% | $3,246,722 | $30,150 | 3.77% |
| Less: Allowance for loan losses | (43,394) | | | (46,041) | | |
| Nonearning Assets | | | | | | |
| Cash and due from banks | 97,093 | | | 83,569 | | |
| Premises and equipment | 47,237 | | | 42,092 | | |
| Other nonearning assets | 120,558 | | | 114,736 | | |
| Total assets | $3,812,316 | | | $3,441,078 | | |
| | | | | | | |
| Interest Bearing Liabilities | | | | | | |
| Savings deposits | $253,313 | $123 | 0.20% | $224,787 | $107 | 0.19% |
| Interest bearing checking accounts | 1,240,226 | 1,324 | 0.43 | 1,203,367 | 1,162 | 0.39 |
| Time deposits: | | | | | | |
| | 254,605 | 737 | 1.16 | 286,857 | 832 | 1.18 |

| | | | | | | |
|---|---|---|---|---|---|---|
| In denominations under $100,000 | | | | | | |
| In denominations over $100,000 | 821,560 | 2,011 | 0.98 | 666,176 | 1,547 | 0.94 |
| Miscellaneous short-term borrowings | 126,758 | 147 | 0.47 | 87,728 | 60 | 0.28 |
| Long-term borrowings and subordinated debentures (4) | 30,960 | 286 | 3.72 | 30,962 | 256 | 3.35 |
| Total interest bearing liabilities | $2,727,422 | $4,628 | 0.68% | $2,499,877 | $3,964 | 0.64% |
| Noninterest Bearing Liabilities | | | | | | |
| Demand deposits | 661,594 | | | 555,984 | | |
| Other liabilities | 23,379 | | | 18,525 | | |
| Stockholders' Equity | 399,921 | | | 366,692 | | |
| Total liabilities and stockholders' equity | $3,812,316 | | | $3,441,078 | | |
| | | | | | | |
| Interest Margin Recap | | | | | | |
| Interest income/average earning assets | | 33,730 | 3.78 | | 30,150 | 3.77 |
| Interest expense/average earning assets | | 4,628 | 0.52 | | 3,964 | 0.50 |
| Net interest income and margin | | $29,102 | 3.26% | | $26,186 | 3.27% |

(1) Tax exempt income was converted to a fully taxable equivalent basis at a 35 percent tax rate for 2016 and 2015. The tax equivalent rate for tax exempt loans and tax exempt securities acquired after January 1, 1983 included the Tax Equity and Fiscal Responsibility Act of 1982 (“TEFRA”) adjustment applicable to nondeductible interest expenses.

(2) Loan fees, which are immaterial in relation to total taxable loan interest income for the three months ended March 31, 2016 and 2015, are included as taxable loan interest income.

(3) Nonaccrual loans are included in the average balance of taxable loans.

(4) Long-term borrowings and subordinated debentures interest expense was reduced by interest capitalized on construction in process for 2015.

Net interest income increased $2.9 million, or 11.2%, for the three months ended March 31, 2016 compared with the first three months of 2015. The increased level of net interest income during the first three months of 2016 was largely driven by an increase in net earning assets of $344.1 million. Average loans outstanding increased $334.5 million during the three months ended March 31, 2016 compared with the same period of 2015, with most of the growth being in commercial loans. The tax equivalent net interest margin was 3.26% for the first three months of 2016 compared to 3.27% during the first three months of 2015. The yield on earning assets totaled 3.78% during the three months ended March 31, 2016 compared to 3.77% in the same period of 2015 while the cost of funds (expressed as a percentage of average earning assets) totaled 0.52% during the first three months of 2016 compared to 0.50% in the same period of 2015. The company received prepayment income from the investment security portfolio totaling $230,000 and $421,000, during the first quarters of 2016 and 2015, respectively, which resulted from the early repayment of one security in the investment portfolio during each period.

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Provision for Loan Losses

No provisions for loan loss expense were recorded during the three month periods ended March 31, 2016 and 2015. The allowance for loan losses at March 31, 2016 represented 1.39% of the loan portfolio, versus 1.42% at December 31, 2015 and 1.65% at March 31, 2015. Factors impacting the decision not to record a provision in the first three months of 2016 included the stabilization or improvement in key loan quality metrics including strong reserve coverage of nonperforming loans, a decrease in historical loss percentages, stable economic conditions in the Company's markets and sustained signs of improvement in borrower performance and future prospects. In addition, management gave consideration to changes in the allocation for specific watch list credits in determining the appropriate level of the loan loss provision. Management's overall view on current credit quality was also a factor in the determination of the provision for loan losses. The Company's management continues to monitor the adequacy of the provision based on loan levels, asset quality, economic conditions and other factors that may influence the assessment of the collectability of loans.

Noninterest Income

Noninterest income categories for the three-month periods ended March 31, 2016 and 2015 are shown in the following tables:

| | Three Months Ended March 31, | | |
|---|---|---|---|
| (dollars in thousands) | 2016 | 2015 | Percent Change |
| Wealth advisory fees | $1,160 | $1,184 | (2.0)% |
| Investment brokerage fees | 288 | 492 | (41.5) |
| Service charges on deposit accounts | 2,780 | 2,374 | 17.1 |
| Loan, insurance and service fees | 1,838 | 1,569 | 17.1 |
| Merchant card fee income | 497 | 416 | 19.5 |
| Bank owned life insurance | 173 | 375 | (53.9) |
| Other income | (72) | 954 | (107.5) |
| Mortgage banking income | 327 | 389 | (15.9) |
| Net securities gains (losses) | 52 | 42 | 23.8 |
| Total noninterest income | $7,043 | $7,795 | (9.6)% |
| Noninterest income to total revenue | 19.77% | 23.27% | |

The Company's noninterest income decreased 10% to $7.0 million for the first quarter of 2016 versus $7.8 million for the first quarter of 2015. Other income decreased primarily due to a $313,000 credit valuation adjustment loss related to the company's swap arrangements, and a $226,000 write down to a property formerly used as a Lake City Bank branch that is held for sale. In addition, other income for the first quarter of 2015 included $460,000 in interest rate swap fees versus $10,000 in the first quarter of 2016. Investment brokerage fees declined due to lower production volumes as well as changes to the product mix designed to provide a more consistent revenue stream. Noninterest income was positively impacted by increases in recurring fee income for service charges on deposit accounts, loan, insurance and service fees as well as merchant card income which increased by $406,000, $269,000 and $81,000 respectively as compared to the first quarter 2015.

Noninterest Expense

Noninterest expense categories for the three-month periods ended March 31, 2016 and 2015 are shown in the following table:

| | Three Months Ended March 31, | | |
|---|---|---|---|
| (dollars in thousands) | 2016 | 2015 | Percent Change |
| Salaries and employee benefits | $9,605 | $9,723 | (1.2)% |
| Net occupancy expense | 1,096 | 1,084 | 1.1 |