FIRST MERCHANTS CORP
Form 10-K
February 27, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

[Mark One]
[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2014
OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from __________to_________
Commission file number 0-17071
FIRST MERCHANTS CORPORATION
(Exact name of registrant as specified in its charter)

Indiana	35-1544218
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
200 East Jackson Muncie, Indiana	47305-2814
(Address of principal executive offices)	(Zip Code)

Registrant’s telephone number, including area code: (765)747-1500
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of each exchange on which registered
Common Stock, $0.125 stated value per share	The NASDAQ Stock Market

Securities registered pursuant to Section 12(g) of the Act:
None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [ ] No [X]
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes [ ] No [X]
Indicate by check mark whether the registrant(1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every interactive data file required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best
of registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of

this Form 10-K or any amendment to this Form 10-K. [ ]
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. Large accelerated filer [X] Accelerated filer[ ] Non-accelerated filer [ ] Small Reporting Company [ ]
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes [ ] No[X]
The aggregate market value (not necessarily a reliable indication of the price at which more than a limited number of shares would trade) of the voting stock held by non-affiliates of the registrant was $762,144,000 as of the last business day of the registrant's most recently completed second fiscal quarter (June 30, 2014).

As of February 20, 2015 there were 37,680,604 outstanding common shares, without par value, of the registrant.

DOCUMENTS INCORPORATED BY REFERENCE

Documents	Part of Form 10-K into which incorporated
Portions of the Registrant’s Definitive Proxy Statement for Annual Meeting of Shareholders to be held May 4, 2015	Part III (Items 10 through 14)

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FORWARD-LOOKING STATEMENTS

First Merchants Corporation (the “Corporation”) from time to time includes forward-looking statements in its oral and written communication. The Corporation may include forward-looking statements in filings with The Securities and Exchange Commission (“SEC”), such as Form 10-K and Form 10-Q, in other written materials and oral statements made by senior management to analysts, investors, representatives of the media and others. The Corporation intends these forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and the Corporation is including this statement for purposes of these safe harbor provisions. Forward-looking statements can often be identified by the use of words like “believe”, “continue”, “pattern”, “estimate”, “project”, “intend”, “anticipate”, “expect” and similar expressions or future or conditional ve such as “will”, “would”, “should”, “could”, “might”, “can”, “may” or similar expressions. These forward-looking statements ir

- statements of the Corporation’s goals, intentions and expectations;
- statements regarding the Corporation’s business plan and growth strategies;
- statements regarding the asset quality of the Corporation’s loan and investment portfolios; and
- estimates of the Corporation’s risks and future costs and benefits.

These forward-looking statements are subject to significant risks, assumptions and uncertainties, including, among other things, those discussed in Item 1A, “RISK FACTORS”.

Because of these and other uncertainties, the Corporation’s actual future results may be materially different from the results indicated by these forward-looking statements. In addition, the Corporation’s past results of operations do not necessarily indicate its future results.

PART I

ITEM 1. BUSINESS

GENERAL

First Merchants Corporation (the “Corporation”) is a financial holding company headquartered in Muncie, Indiana and was organized in September 1982. The Corporation’s Common Stock is traded on NASDAQ’s Global Select Market System under the symbol FRME. The Corporation has one full-service bank charter, First Merchants Bank, National Association (the “Bank”), which opened for business in Muncie, Indiana, in March 1893. The Bank also operates Lafayette Bank and Trust, Commerce National Bank, Community Bank of Noblesville and First Merchants Trust Company as divisions of First Merchants Bank, N.A. The Bank includes 106 banking locations in twenty-six Indiana, two Illinois and two Ohio counties. In addition to its branch network, the Corporation’s delivery channels include ATMs, check cards, remote deposit capture, interactive voice response systems and internet technology. The Corporation’s business activities are currently limited to one significant business segment, which is community banking.

Through the Bank, the Corporation offers a broad range of financial services, including accepting time deposits, savings and demand deposits; making consumer, commercial, agri-business and real estate mortgage loans; renting safe deposit facilities; providing personal and corporate trust services; providing full-service brokerage; and providing other corporate services, letters of credit and repurchase agreements.

The Corporation also operates First Merchants Insurance Services, Inc., operating as First Merchants Insurance Group, a full-service property, casualty, personal lines, and employee benefit insurance agency headquartered in Muncie, Indiana.

All inter-company transactions are eliminated during the preparation of consolidated financial statements.

As of December 31, 2014, the Corporation had consolidated assets of $5.8 billion, consolidated deposits of $4.6 billion and stockholders’ equity of $727 million. As of December 31, 2014, the Corporation and its subsidiaries had 1,415 full-time equivalent employees.

AVAILABLE INFORMATION

The Corporation makes its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, available on its website at www.firstmerchants.com without charge, as soon as reasonably practicable, after such reports are electronically filed with, or furnished to, the Securities and Exchange Commission. These documents can also be read and copied at the Securities and Exchange Commission’s Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. Please call the Securities and Exchange Commission at 1-800-SEC-0330 for further information on the public reference room. SEC filings are also available to the public at the Securities and Exchange Commission’s website at www.sec.gov. Additionally, the Corporation will also provide without charge, a copy of its Annual Report on Form 10-K to any shareholder by mail. Requests should be sent to Cynthia Holaday, Shareholder Relations, First Merchants Corporation, P.O. Box 792, Muncie, IN 47308-0792.

ACQUISITION POLICY

The Corporation anticipates that it will continue its policy of geographic expansion of its banking business through the acquisition of banks whose operations are consistent with its banking philosophy. Management routinely explores opportunities to acquire financial institutions and other financial services-related businesses and to enter into strategic alliances to expand the scope of its services and its customer base.

On November 7, 2014, the Corporation acquired 100 percent of Community Bancshares, Inc. ("Community"). Community was headquartered in Noblesville, Indiana and had 10 full-service banking centers serving central Indiana. Pursuant to the merger agreement, each outstanding share of common stock of Community was converted into the right to receive either (a) 4.0926 shares of the Corporation's common stock, plus cash in lieu of fractional shares; or (b) $85.94 in cash, based upon shareholder elections. The Corporation paid $14.2 million in cash and issued approximately 1.6 million shares of common stock, valued at approximately $35.0 million, for a total purchase price of approximately $49.2 million.

Effective November 12, 2013, the Corporation acquired 100 percent of CFS Bancorp ("CFS") in an all stock transaction. CFS was headquartered in Munster, Indiana and had 20 banking centers in northwestern Indiana and northeastern Illinois. Pursuant to the merger agreement, the shareholders of CFS received 0.65 percent of a share of the Corporation's common stock for each share of CFS Bancorp common stock held. The Corporation issued approximately 7.1 million shares of common stock, which was valued at approximately $135.6 million.

The details of the Community and CFS acquisitions can be found in Note 3. BUSINESS COMBINATIONS, in the Notes to Consolidated Financial Statements included as Item 8 of this Annual Report on Form 10-K.

Effective February 10, 2012, the Bank assumed substantially all of the deposits and certain other liabilities and acquired certain assets of SCB Bank ("SCB"), a federal savings bank headquartered in Shelbyville, Indiana, from the Federal Deposit Insurance Corporation ("FDIC"), as receiver for SCB, pursuant to the terms of the Purchase and Assumption Agreement - Modified Whole Bank; All Deposits, entered into by the Bank , the FDIC as receiver of SCB and the FDIC. Additional details of this transaction can be found in Note 2. PURCHASE AND ASSUMPTION, in the Notes to Consolidated Financial Statements included as Item 8 of this Annual Report on Form 10-K.

On January 5, 2015, the Corporation and C Financial Corporation, an Ohio corporation (“C Financial”), entered into an Agreement and Plan of Reorganization and Merger (the “Merger Agreement”), pursuant to which, C Financial will, subject to the terms and conditions of the Merger Agreement, merge with and into First Merchants (the “Merger,”) whereupon the separate corporate existence of C Financial will cease and First Merchants will survive. Immediately following the Merger, Cooper State Bank, an Ohio state bank and wholly-owned subsidiary of C Financial, will be merged with and into First Merchants Bank, National Association, a national bank and wholly-owned subsidiary of First Merchants, with First Merchants Bank, National Association continuing as the surviving bank. The Merger Agreement has been approved by the Boards of Directors of each of First Merchants and C Financial, but the consummation of the Merger is conditioned upon the approval of the C Financial shareholders and certain regulatory authorities as well as satisfaction of customary closing conditions. The Merger Agreement provides that upon the effective date of the Merger (the “Effective Date”), the shareholders of C Financial shall be entitled to receive an aggregate of $14,500,000 in cash in exchange for all of the outstanding shares of C Financial common stock, $1.00 par value. Subject to C Financial common shareholders’ approval of the Merger Agreement, regulatory approvals and other customary closing conditions, the parties anticipate completing the Merger in the second quarter of 2015. Additional details of this transaction can be found in Note 28. SUBSEQUENT EVENTS, in the Notes to Consolidated Financial Statements included as Item 8 of this Annual Report on Form 10-K.

COMPETITION

The Bank is located in Indiana, Ohio and Illinois counties where other financial services companies provide similar banking services. In addition to the competition provided by the lending and deposit gathering subsidiaries of national manufacturers, retailers, insurance companies and investment brokers, the Bank competes vigorously with other banks, thrift institutions, credit unions and finance companies located within its service areas.

REGULATION AND SUPERVISION OF FIRST MERCHANTS CORPORATION AND SUBSIDIARIES

Bank Holding Company Regulation

The Corporation is registered as a bank holding company and has elected to be a financial holding company. It is subject to the supervision of, and regulation by the Board of Governors of the Federal Reserve System (“Federal Reserve”) under the Bank Holding Company Act of 1956 (the “BHC Act”), as amended. Bank holding companies are required to file periodic reports with and are subject to periodic examination by the Federal Reserve. The Federal Reserve has issued regulations under the BHC Act requiring a bank holding company to serve as a source of financial and managerial strength to the Bank. Thus, it is the policy of the Federal Reserve that a bank holding company should stand ready to use its resources to provide adequate capital funds to the Bank during periods of financial stress or adversity. Additionally, under the Federal Deposit Insurance Corporation Improvement Act of 1991 (“FDICIA”), a bank holding company is required to guarantee the compliance of any subsidiary bank that may become “undercapitalized” (as defined in the FDICIA section of this Form 10-K) with the terms of any capital restoration plan filed by such subsidiary with its appropriate federal banking agency. Under the BHC Act, the Federal Reserve has the authority to require a bank holding company to terminate any activity or relinquish control of a non-bank subsidiary (other than a non-bank subsidiary of a bank) upon the determination that such activity constitutes a serious risk to the financial stability of any bank subsidiary.

The BHC Act requires the Corporation to obtain the prior approval of the Federal Reserve before:

- acquiring direct or indirect control or ownership of any voting shares of any bank or bank holding company if, after such acquisition, the bank holding company will directly or indirectly own or control more than 5 percent of the voting shares of the bank or bank holding company;

- merging or consolidating with another bank holding company; or
- acquiring substantially all of the assets of any bank.

The BHC Act generally prohibits bank holding companies that have not become financial holding companies from (i) engaging in activities other than banking or managing or controlling banks or other permissible subsidiaries, and (ii) acquiring or retaining direct or indirect control of any company engaged in the activities other than those activities determined by the Federal Reserve to be closely related to banking or managing or controlling banks.

Capital Adequacy Guidelines for Bank Holding Companies

The BHC Act does not place territorial restrictions on such non-banking related activities. The Corporation is required to comply with the Federal Reserve’s risk-based capital guidelines. These guidelines require a minimum ratio of capital to risk-weighted assets of 8 percent (including certain off-balance sheet activities such as standby letters of credit). At least half of the total required capital must be “Tier 1 capital,” consisting principally of stockholders’ equity, noncumulative perpetual preferred stock, a limited amount of cumulative perpetual preferred stock and minority interest in the equity accounts of consolidated subsidiaries, less certain goodwill items. The remainder may consist of a limited amount of subordinate debt and intermediate-term preferred stock, certain hybrid capital instruments and other debt securities, cumulative perpetual preferred stock, and a limited amount of the general loan loss allowance.

In addition to the risk-based capital guidelines, the Federal Reserve has adopted a Tier 1 (leverage) capital ratio under which the Corporation must maintain a minimum level of Tier 1 capital to average total consolidated assets.

The following are the Corporation's regulatory capital ratios as of December 31, 2014:

	Corporation		Regulatory Minimum Requirement	
Tier 1 risk-based capital ratio	12.63	%	4.00	%
Total risk-based capital ratio	15.34	%	8.00	%

In July 2013, the United States banking regulators adopted new capital rules which modified the risk-based capital and leverage capital requirements applicable to bank holding companies and depository institutions. These rules are commonly known as "Basel III". These new rules will be phased in for the Corporation and the Bank beginning on January 1, 2015. The following is a summary of the major changes related to risk based capital:

- higher minimum capital requirements, including a new "common equity tier 1 capital" ratio of 4.5 percent, a tier 1 capital ratio of 6 percent, a total capital ratio of 8 percent and a minimum leverage ratio of 4 percent;
- stricter eligibility for regulatory capital instruments:
- restrictions on the payment of capital distributions (including dividends) and certain discretionary bonus payments to executive officers if certain thresholds are not met under a new "capital conservation buffer" as defined in the rules;
- replacement of the external credit ratings approach to standards of creditworthiness with a simplified supervisory formula approach;
- stricter limitations on the extent to which certain mortgage servicing assets, deferred tax assets and investments in unconsolidated financial institutions may be included in common equity tier 1 capital;
- increased risk weights for past due loans, certain commercial real estate loans and certain equity exposures.

The implementation of the new Basel III standards is not expected to have a material impact on the Corporation or the Bank.

Bank Regulation

The Bank is supervised, regulated and examined by the Office of the Comptroller of the Currency (the "OCC"). The OCC has the authority to issue cease-and-desist orders if it determines that activities of the Bank regularly represent an unsafe and unsound banking practice or a violation of law. Federal law extensively regulates various aspects of the banking business such as reserve requirements, truth-in-lending and truth-in-savings disclosures, equal credit opportunity, fair credit reporting, trading in securities and other aspects of banking operations. Current federal law also requires banks, among other things, to make deposited funds available within specified time periods.

Bank Capital Requirements

The OCC has adopted risk-based capital ratio guidelines to which national banks are subject. The guidelines establish a framework that makes regulatory capital requirements more sensitive to differences in risk profiles. Risk-based capital ratios are determined by allocating assets and specified off-balance sheet commitments to four risk-weighted categories, with higher levels of capital being required for the categories perceived as representing greater risk.

Like the capital guidelines established by the Federal Reserve, these guidelines divide a bank's capital into tiers. Banks are required to maintain a total risk-based capital ratio of 8 percent. The OCC may, however, set higher capital requirements when a bank's particular circumstances warrant. Banks experiencing or anticipating significant growth are expected to maintain capital ratios, including tangible capital positions, well above the minimum levels.

In addition, the OCC established guidelines prescribing a minimum Tier 1 leverage ratio (Tier 1 capital to adjusted total assets as specified in the guidelines). Currently, these guidelines provide for a minimum Tier 1 leverage ratio of 3 percent for banks that meet specified criteria, including that they have the highest regulatory rating and are not experiencing or anticipating significant growth. All other banks are required to maintain a Tier 1 leverage ratio of 3 percent plus an additional 1 to 2 percent. The Bank exceeded the minimum risk-based capital guidelines of the OCC as of December 31, 2014. The capital standards applicable to the Bank will begin to change on January 1, 2015 in accordance with the Basel III rules discussed above. The implementation of the new Basel III standards is not expected to have a material impact on the Corporation or the Bank.

FDIC Improvement Act of 1991

The FDICIA requires, among other things, federal bank regulatory authorities to take "prompt corrective action" with respect to banks, which do not meet minimum capital requirements. For these purposes, FDICIA establishes five capital tiers: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. The Federal Deposit Insurance Corporation ("FDIC") has adopted regulations to implement the prompt corrective action provisions of FDICIA.

“Undercapitalized” banks are subject to growth limitations and are required to submit a capital restoration plan. A bank’s compliance with such plan is required to be guaranteed by the bank’s parent holding company. If an “undercapitalized” bank fails to submit an acceptable plan, it is treated as if it is significantly undercapitalized. “Significantly undercapitalized” banks are subject to one or more restrictions, including an order by the FDIC to sell sufficient voting stock to become adequately capitalized, requirements to reduce total assets and cease receipt of deposits from correspondent banks, and restrictions on compensation of executive officers. “Critically undercapitalized” institutions may not, beginning 60 days after becoming “critically undercapitalized,” make any payment of principal or interest on certain subordinated debt or extend credit for a highly leveraged transaction or enter into any transaction outside the ordinary course of business. In addition, “critically undercapitalized” institutions are subject to appointment of a receiver or conservator.

As of December 31, 2014, the Bank was “well capitalized” based on the “prompt corrective action” ratios described above. It should be noted that a bank’s capital category is determined solely for the purpose of applying the OCC’s “prompt corrective action” regulations and that the capital category may not constitute an accurate representation of the bank’s overall financial condition or prospects.

Volcker Rule

In December 2013, United States banking regulators adopted final rules implementing the Volcker Rule under the Dodd-Frank Act. The Volcker Rule places certain limitations on the trading activity of insured depository institutions and their affiliates subject to certain exceptions. The restricted trading activity includes purchasing or selling certain types of securities or instruments in order to benefit from short-term price movements or to realize short-term profits. Exceptions to the Volcker Rule include trading in certain U.S. Government or other municipal securities and trading conducted in certain capacities as a broker or other agent, as a fiduciary on behalf of customers, to satisfy a debt previously contracted, repurchase and securities lending agreements and risk-mitigating hedging activities. The Volcker Rule also prohibits banking institutions from having an ownership interest in a hedge fund or private equity fund. The implementation of the new Volcker Rule did not have a material impact on the Corporation or the Bank.

LEGISLATIVE AND REGULATORY INITIATIVES TO ADDRESS FINANCIAL AND ECONOMIC CRISES

Small Business Lending Program

In 2010, Congress established the Small Business Lending Fund (“SBLF”) under the Small Business Jobs Act of 2010 encouraging lending to small business by providing capital to qualified community banks with assets of less than $10 billion. On September 22, 2011, the Corporation became a participant in SBLF by entering into a Securities Purchase Agreement (the “Purchase Agreement”) with the U.S. Department of Treasury ("Treasury"), pursuant to which the Corporation issued 90,782.94 shares of the Corporation’s Senior Non-Cumulative Perpetual Preferred Stock, Series B (the “Series B Preferred Stock”), having a liquidation amount per share equal to $1,000, for a total purchase price of $90,782,940.

The Series B Preferred Stock was entitled to receive non-cumulative dividends, payable quarterly, on each January 1, April 1, July 1 and October 1, beginning October 1, 2011. The dividend rate was based on the level of the Bank's lending to small businesses. The Series B Preferred Stock was non-voting, except in limited circumstances, and was issued in a private placement exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended.

On January 3, 2013, the Corporation redeemed 22,695.94 shares of the Series B Preferred Stock held by the Treasury at an aggregate redemption price of $22,695,940 plus accrued but unpaid dividends. On July 2, 2013, the Corporation redeemed an additional 34,044 shares of the Series B Preferred Stock held by the Treasury at an aggregate redemption price of $34,044,000 plus accrued but unpaid dividends. On November 22, 2013, the Corporation redeemed the final 34,043 shares of the Series B Preferred Stock held by the Treasury at an aggregate redemption price of $34,043,000 plus accrued but unpaid dividends. This redemption resulted in all of the outstanding shares of Series B Preferred Stock having been redeemed and the Corporation ending its participation in the SBLF program.

Dodd-Frank Wall Street Reform and Consumer Protection Act

On July 21, 2010, President Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") into law. The Dodd-Frank Act is likely to have a broad impact on the financial services industry, including significant regulatory and compliance changes. Many of the requirements called for in the Dodd-Frank Act will be implemented over time and most will be subject to various federal agencies implementing regulations over the course of several years. Given the uncertainty associated with the manner in which the provisions of the Dodd-Frank Act will be implemented by the various regulatory agencies through regulatory guidance, the full extent of the impact such requirements will have on the financial services industry, and on operations specifically, is currently unclear. The changes resulting from the Dodd-Frank Act may materially impact the profitability of the Corporation's business activities, require changes to certain business practices, impose more stringent capital, liquidity and leverage requirements or otherwise adversely affect the business. At a minimum, the Dodd-Frank Act is likely to:

- increase the cost of operations due to greater regulatory oversight, supervision and examination of banks and bank holding companies, including higher deposit insurance premiums;
- limit the Corporation's ability to raise additional capital through the use of trust preferred securities as new issuances of these securities may no longer be included as Tier 1 capital;
- reduce the flexibility to generate or originate certain revenue-producing assets based on increased regulatory capital standards; and
- limit the ability to expand consumer product and service offerings due to anticipated stricter consumer protection laws and regulations.

The timing and extent of these increases and limitations will remain unclear until the underlying implementing regulations are promulgated by the applicable federal agencies. In the interim, the Corporation's management is currently taking steps to best prepare for the implementation and to minimize the adverse impact on the business, financial condition and results of operation.

On February 7, 2011, the FDIC adopted final rules implementing a portion of the Dodd-Frank Act relating to deposit insurance assessments. The rules modify the base amount for a financial institution's insurance assessments from an institution's insured deposits to the difference between an institution's daily average consolidated assets and its daily average tangible equity. The rules also eliminated the requirement that the FDIC provide rebates to institutions on their deposit premiums once the reserve ratio exceeded 1.5 percent. These new rules became effective on April 1, 2011.

Deposit Insurance

The Bank is insured up to regulatory limits by the FDIC; and, accordingly, is subject to deposit insurance assessments to maintain the Deposit Insurance Fund administered by the FDIC. The FDIC has adopted regulations establishing a permanent risk-related deposit insurance assessment system. Under this system, the FDIC places each insured bank in one of four risk categories based on (i) the bank's capital evaluation, and (ii) supervisory evaluations provided to the FDIC by the bank's primary federal regulator. Each insured bank's annual assessment rate is then determined by the risk category in which it is classified by the FDIC.

When Dodd-Frank became effective, it permanently raised the previous Standard Maximum Deposit Insurance Amount ("SMDIA") to $250,000. The FDIC insurance coverage limit applies per depositor, per insured depository institution for each account ownership category. This provision became effective for depositors December 31, 2010.

On November 9, 2010, the FDIC implemented section 343 of the Dodd-Frank Act providing unlimited insurance coverage on noninterest-bearing transaction accounts. Beginning December 31, 2010, through December 31, 2012, all noninterest-bearing transaction accounts were fully insured, regardless of the balance of the account, at all FDIC-insured institutions. As of January 1, 2013, noninterest-bearing transaction deposit accounts are no longer insured separately from other accounts at the same FDIC-insured institution. Instead, noninterest-bearing transaction accounts will be added to other accounts, and the aggregate balance insured up to at least the Standard Maximum Deposit Insurance Amount of $250,000, at each institution.

DIVIDEND LIMITATIONS

National banking laws restrict the amount of dividends that an affiliate bank may declare in a year without obtaining prior regulatory approval. National banks are limited to the bank's retained net income (as defined) for the current year plus those for the previous two years. At December 31, 2014, the Corporation's affiliates (including the Bank and other affiliates) had a total of $23,340,000 retained net profits available for 2015 dividends to the Corporation without prior regulatory approval.

BROKERED DEPOSITS

Under FDIC regulations, no FDIC-insured depository institution can accept brokered deposits unless it (i) is well capitalized, or (ii) is adequately capitalized and received a waiver from the FDIC. In addition, these regulations prohibit any depository institution that is not well capitalized from (a) paying an interest rate on deposits in excess of 76 basis points over certain prevailing market rates or (b) offering "pass through" deposit insurance on certain employee benefit plan accounts unless it provides certain notice to affected depositors.

INTERSTATE BANKING AND BRANCHING

Under the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (“Riegle-Neal”), subject to certain concentration limits, required regulatory approvals and other requirements, (i) financial holding companies such as the Corporation are permitted to acquire banks and bank holding companies located in any state; (ii) any bank that is a subsidiary of a bank holding company is permitted to receive deposits, renew time deposits, close loans, service loans and receive loan payments as an agent for any other bank subsidiary of that holding company; and (iii) banks are permitted to acquire branch offices outside their home states by merging with out-of-state banks, purchasing branches in other states, and establishing de novo branch offices in other states.

FINANCIAL SERVICES MODERNIZATION ACT

The Gramm-Leach-Bliley Act of 1999 (the “Financial Services Modernization Act”) establishes a comprehensive framework to permit affiliations among commercial banks, insurance companies, securities firms, and other financial service providers by revising and expanding the existing BHC Act. Under this legislation, bank holding companies would be permitted to conduct essentially unlimited securities and insurance activities as well as other activities determined by the Federal Reserve Board to be financial in nature or related to financial services. As a result, the Corporation is able to provide securities and insurance services. Furthermore, under this legislation, the Corporation is able to acquire, or be acquired, by brokerage and securities firms and insurance underwriters. In addition, the Financial Services Modernization Act broadens the activities that may be conducted by national banks through the formation of financial subsidiaries. Finally, the Financial Services Modernization Act modifies the laws governing the implementation of the Community Reinvestment Act and addresses a variety of other legal and regulatory issues affecting both day-to-day operations and long-term activities of financial institutions.

A bank holding company may become a financial holding company if each of its subsidiary banks is well capitalized, is well managed and has at least a satisfactory rating under the Community Reinvestment Act, by filing a declaration that the bank holding company wishes to become a financial holding company. Also effective March 11, 2000, no regulatory approval is required for a financial holding company to acquire a company, other than a bank or savings association, engaged in activities that are financial in nature or incidental to activities that are financial in nature, as determined by the Federal Reserve Board. The Federal Reserve Bank of Chicago approved the Corporation's application to become a Financial Holding Company effective September 13, 2000.

USA PATRIOT ACT

As part of the USA Patriot Act, signed into law on October 26, 2001, Congress adopted the International Money Laundering Abatement and Financial Anti-Terrorism Act of 2001 (the "Act"). The Act authorizes the Secretary of the Treasury, in consultation with the heads of other government agencies, to adopt special measures applicable to financial institutions such as banks, bank holding companies, broker-dealers and insurance companies. Among its other provisions, the Act requires each financial institution: (i) to establish an anti-money laundering program; (ii) to establish due diligence policies, procedures and controls that are reasonably designed to detect and report instances of money laundering in United States private banking accounts and correspondent accounts maintained for non-United States persons or their representatives; and (iii) to avoid establishing, maintaining, administering, or managing correspondent accounts in the United States for, or on behalf of, a foreign shell bank that does not have a physical presence in any country. In addition, the Act expands the circumstances under which funds in a bank account may be forfeited and requires covered financial institutions to respond under certain circumstances to requests for information from federal banking agencies within 120 hours.

Treasury regulations implementing the due diligence requirements were issued in 2002. These regulations required minimum standards to verify customer identity, encouraged cooperation among financial institutions, federal banking agencies, and law enforcement authorities regarding possible money laundering or terrorist activities, prohibited the anonymous use of "concentration accounts," and required all covered financial institutions to have in place an anti-money laundering compliance program.

The Act also amended the Bank Holding Company Act and the Bank Merger Act to require the federal banking agencies to consider the effectiveness of a financial institution's anti-money laundering activities when reviewing an application under these acts.

THE SARBANES-OXLEY ACT

The Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley Act"), which became law on July 30, 2002, added new legal requirements for public companies affecting corporate governance, accounting and corporate reporting. The Sarbanes-Oxley Act provides for, among other things:

- a prohibition on personal loans made or arranged by the issuer to its directors and executive officers (except for loans made by a bank subject to Regulation O);
- independence requirements for audit committee members;
- independence requirements for company auditors;
- certification of financial statements on Forms 10-K and 10-Q reports by the chief executive officer and the chief financial officer;
- the forfeiture by the chief executive officer and chief financial officer of bonuses or other incentive-based compensation and profits from the sale of an issuer's securities by such officers in the twelve-month period following

initial publication of any financial statements that later require restatement due to corporate misconduct;
- disclosure of off-balance sheet transactions;
- two-business day filing requirements for insiders filing Form 4s;
- disclosure of a code of ethics for financial officers and filing a Form 8-K for a change in or waiver of such code;
- the reporting of securities violations “up the ladder” by both in-house and outside attorneys;
- restrictions on the use of non-GAAP financial measures in press releases and SEC filings;
- the formation of a public accounting oversight board; and
- various increased criminal penalties for violations of securities laws.

The Sarbanes-Oxley Act contains provisions, which became effective upon enactment on July 30, 2002, including provisions, which became effective from within 30 days to one year from enactment. The SEC has been delegated the task of enacting rules to implement various provisions. In addition, each of the national stock exchanges developed new corporate governance rules, including rules strengthening director independence requirements for boards, the adoption of corporate governance codes and charters for the nominating, corporate governance and audit committees.

ADDITIONAL MATTERS

The Corporation and the Bank are subject to the Federal Reserve Act, which restricts financial transactions between banks and affiliated companies. The statute limits credit transactions between banks, affiliated companies and its executive officers and its affiliates. The statute prescribes terms and conditions for bank affiliate transactions deemed to be consistent with safe and sound banking practices. It also restricts the types of collateral security permitted in connection with the bank’s extension of credit to an affiliate. Additionally, all transactions with an affiliate must be on terms substantially the same or at least as favorable to the institution as those prevailing at the time for comparable transactions with non-affiliated parties.

In addition to the matters discussed above, the Bank is subject to additional regulation of its activities, including a variety of consumer protection regulations affecting its lending, deposit and collection activities and regulations affecting secondary mortgage market activities.

The earnings of financial institutions are also affected by general economic conditions and prevailing interest rates, both domestic and foreign, and by the monetary and fiscal policies of the United States Government and its various agencies, particularly the Federal Reserve. The Federal Reserve regulates the supply of credit in order to influence general economic conditions, primarily through open market operations in United States Government obligations, varying the discount rate on financial institution borrowings, varying reserve requirements against financial institution deposits, and restricting certain borrowings by financial institutions and their subsidiaries. The monetary policies of the Federal Reserve have had a significant effect on the operating results of the Bank in the past and are expected to continue to do so in the future.

Additional legislation and administrative actions affecting the banking industry may be considered by the United States Congress, state legislatures and various regulatory agencies, including those referred to above. It cannot be predicted with certainty whether such legislation or administrative action will be enacted or the extent to which the banking industry, the Corporation or the Bank would be affected.

STATISTICAL DATA

The following tables set forth statistical data on the Corporation and its subsidiaries.

DISTRIBUTION OF ASSETS, LIABILITIES AND STOCKHOLDERS' EQUITY; INTEREST RATES AND INTEREST DIFFERENTIAL

The daily average balance sheet amounts, the related interest income or interest expense, and average rates earned or paid are presented in the following table:

	Average Balance	Interest Income / Expense	Average Rate	Average Balance	Interest Income / Expense	Average Rate	Average Balance	Interest Income / Expense	Average Rate
(Dollars in Thousands)	2014			2013			2012		
Assets:									
Interest-bearing deposits	$53,231	$124	0.2 %	$74,964	$158	0.2 %	$57,842	$100	0.2 %
Federal reserve and federal home loan bank stock	42,142	2,124	5.0	33,620	1,488	4.4	32,819	1,408	4.3
Securities: [1]									
Taxable	763,450	19,882	2.6	617,524	15,214	2.5	670,973	17,027	2.5
Tax-Exempt [2]	396,435	22,127	5.6	282,584	16,660	5.9	251,724	15,675	6.2
Total securities	1,159,885	42,009	3.6	900,108	31,874	3.5	922,697	32,702	3.5
Loans held for sale	6,681	485	7.3	16,137	770	4.8	20,648	1,024	5.0
Loans: [3]									
Commercial	2,919,020	133,567	4.6	2,391,221	113,613	4.8	2,166,238	114,078	5.3
Real estate mortgage	429,384	19,812	4.6	277,520	12,375	4.5	293,384	13,848	4.7
Installment	361,484	18,175	5.0	308,233	15,994	5.2	324,553	17,795	5.5
Tax-Exempt [2]	13,511	504	3.7	15,444	605	3.9	14,993	739	4.9
Total loans	3,730,080	172,543	4.6	3,008,555	143,357	4.8	2,819,816	147,484	5.2
Total earning assets	4,985,338	216,800	4.3 %	4,017,247	176,877	4.4 %	3,833,174	181,694	4.7 %
Net unrealized gain on securities available for sale	8,921			4,521			16,116		
Allowance for loan losses	(67,969)			(68,806)			(71,038)		
Cash and due from banks	87,068			73,161			66,109		
Premises and equipment	75,202			57,228			51,692		
Other assets	482,794			372,060			349,943		
Total assets	$5,571,354			$4,455,411			$4,245,996		
Liabilities:									
Interest-bearing deposits:									
NOW accounts	$1,066,402	$1,110	0.1 %	$880,323	$941	0.1 %	$814,831	$1,007	0.1 %

Money market deposit accounts	776,712	1,572	0.2	603,012	1,287	0.2	501,537	1,370	0.3
Savings deposits	533,080	619	0.1	377,106	421	0.1	327,644	528	0.2
Certificates and other time deposits	1,042,539	8,377	0.8	807,764	7,404	0.9	935,713	11,895	1.3
Total interest-bearing deposits	3,418,733	11,678	0.3	2,668,205	10,053	0.4	2,579,725	14,800	0.6
Borrowings	492,128	10,164	2.1	400,580	6,516	1.6	411,915	8,813	2.1
Total interest-bearing liabilities	3,910,861	21,842	0.6	3,068,785	16,569	0.5	2,991,640	23,613	0.8
Noninterest-bearing deposits	945,222			797,435			683,295		
Other liabilities	39,976			48,936			35,564		
Total liabilities	4,896,059			3,915,156			3,710,499		
Stockholders' Equity	675,295			540,255			535,497		
Total Liabilities and Stockholders' Equity	$5,571,354	21,842	0.4	$4,455,411	16,569	0.4	$4,245,996	23,613	0.6
Net Interest Income		$194,958			$160,308			$158,081	
Net Interest Margin			3.9 %			4.0 %			4.1 %

(1) Average balance of securities is computed based on the average of the historical amortized cost balances without the effects of the fair value adjustment.

(2) Tax-exempt securities and loans are presented on a fully taxable equivalent basis, using a marginal tax rate of 35 percent for 2014, 2013 and 2012. These totals equal $7,921, $6,043 and $5,745, respectively.

(3) Non-accruing loans have been included in the average balances.

ANALYSIS OF CHANGES IN NET INTEREST INCOME

The following table presents net interest income components on a tax-equivalent basis and reflects changes between periods attributable to movement in either the average balance or average interest rate for both earning assets and interest-bearing liabilities. The volume differences were computed as the difference in volume between the current and prior year multiplied by the interest rate from the prior year. The interest rate changes were computed as the difference in rate between the current and prior year multiplied by the volume from the prior year. Volume/rate variances have been allocated on the basis of the absolute relationship between volume variances and rate variances.

	2014 Compared to 2013 Increase (Decrease) Due To			2013 Compared to 2012 Increase (Decrease) Due To			2012 Compared to 2011 Increase (Decrease) Due To		
(Dollars in Thousands, Fully Taxable Equivalent Basis)	Volume	Rate	Total	Volume	Rate	Total	Volume	Rate	Total
Interest Income:									
Federal funds sold							$(3)		$(3)
Interest-bearing deposits	$(49)	$15	$(34)	$33	$25	$58	(40)	$(142)	(182)
Federal Reserve and Federal Home Loan Bank stock	411	225	636	35	45	80	17	72	89
Securities	9,393	742	10,135	(800)	(28)	(828)	1,222	(3,392)	(2,170)
Mortgage loans held for sale	(576)	291	(285)	(216)	(38)	(254)	575	(105)	470
Loans	33,894	(4,423)	29,471	9,718	(13,591)	(3,873)	3,226	(6,740)	(3,514)
Totals	43,073	(3,150)	39,923	8,770	(13,587)	(4,817)	4,997	(10,307)	(5,310)
Interest Expense:									
NOW accounts	194	(25)	169	77	(143)	(66)	72	(518)	(446)
Money market deposit accounts	354	(69)	285	248	(331)	(83)	101	(288)	(187)
Savings deposits	180	18	198	72	(179)	(107)	64	(204)	(140)
Certificates and other time deposits	1,966	(993)	973	(1,477)	(3,014)	(4,491)	(1,624)	(5,084)	(6,708)
Borrowings	1,673	1,975	3,648	(237)	(2,060)	(2,297)	(1,370)	(5,426)	(6,796)
Totals	4,367	906	5,273	(1,317)	(5,727)	(7,044)	(2,757)	(11,520)	(14,277)
Change in net interest income (fully taxable equivalent basis)	$38,706	$(4,056)	34,650	$10,087	$(7,860)	2,227	$7,754	$1,213	8,967
Tax equivalent adjustment using marginal rate of 35% for 2014, 2013, and 2012			(1,878)			(298)			14
Change in net interest income			$32,772			$1,929			$8,981

INVESTMENT SECURITIES

Management evaluates securities for other-than-temporary impairment (“OTTI”) at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. The investment securities portfolio is evaluated for OTTI by segregating the portfolio into two general segments and applying the appropriate OTTI model. Investment securities are generally evaluated for OTTI under Accounting Standards Codification (“ASC”) 320, Investments – Debt and Equity Securities. However, certain purchased beneficial interest, including certain non-agency government-sponsored mortgage-backed securities, asset-backed securities and collateralized debt obligations are evaluated using the model outlined in ASC 325-10, Investments - Other.

In determining OTTI under ASC 320, management considers many factors, including: (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions, and (4) whether the Corporation has the intent to sell the debt security or more likely than not, will be required to sell the debt security before its anticipated recovery. The assessment of whether an other-than-temporary decline exists involves a high degree of subjectivity and judgment and is based on the information available to management at a point in time.

When OTTI occurs, the amount of OTTI recognized in the income statement depends on whether the Corporation intends to sell the security or it is more likely than not that the Corporation will be required to sell the security before recovery of its amortized cost basis, less any recognized credit loss. If the intent is to sell, or it is more likely than not that the Corporation will be required to sell the security before recovery of its amortized cost basis, less any recognized credit loss, the OTTI shall be recognized in earnings equal to the entire difference between the investment's amortized cost basis, less any recognized credit loss, and its fair value at the balance sheet date. If the intent is not to sell the security and it is not more likely than not that the Corporation will be required to sell the security before the recovery of its amortized cost basis less any recognized credit loss, the OTTI has been separated into the amount representing the credit loss and the amount related to all other factors. The amount of the total OTTI related to the credit loss is determined based on the present value of cash flows expected to be collected and is recognized in earnings. The amount of the total OTTI related to other factors has been recognized in other comprehensive income, net of applicable income taxes. The previous amortized cost basis less the OTTI recognized in earnings becomes the new amortized cost basis of the investment.

The Corporation's management has evaluated all securities with unrealized losses for OTTI as of December 31, 2014. The evaluations are based on the nature of the securities, the extent and duration of the loss and the intent and ability of the Corporation to hold these securities either to maturity or through the expected recovery period.

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

The Corporation continues to evaluate the portfolio for OTTI on an ongoing basis. In 2014, the Corporation sold all but one of its trust preferred securities, which resulted in gains of $1.9 million. These securities had previous OTTI of $9.4 million. The one remaining trust preferred security has no remaining book value as a result of OTTI of approximately $500,000 taken in 2009.

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

(Dollars in Thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale at December 31, 2014				
U.S. Government-sponsored agency securities	$100	$9		$109
State and municipal	216,915	11,801	$123	228,593
U.S. Government-sponsored mortgage-backed securities	310,460	8,771	127	319,104
Corporate obligations	31			31
Equity securities	1,706			1,706
Total available for sale	529,212	20,581	250	549,543
Held to maturity at December 31, 2014				
State and municipal	204,443	5,716	96	210,063
U.S. Government-sponsored mortgage-backed securities	426,645	11,527	512	437,660
Total held to maturity	631,088	17,243	608	647,723
Total Investment Securities	$1,160,300	$37,824	$858	$1,197,266

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale at December 31, 2013				
U.S. Treasury	$15,914	$80	$21	$15,973
U.S. Government-sponsored agency securities	3,550	12	17	3,545
State and municipal	231,005	3,878	3,896	230,987
U.S. Government-sponsored mortgage-backed securities	279,299	3,926	1,973	281,252
Corporate obligations	6,374		3,636	2,738
Equity securities	1,706			1,706
Total available for sale	537,848	7,896	9,543	536,201
Held to maturity at December 31, 2013				

State and municipal	145,941	62	91	145,912
U.S. Government-sponsored mortgage-backed securities	413,437	5,220	3,722	414,935
Total held to maturity	559,378	5,282	3,813	560,847
Total Investment Securities	$1,097,226	$13,178	$13,356	$1,097,048

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale at December 31, 2012				
U.S. Government-sponsored agency securities	$4,475	$165		$4,640
State and municipal	148,187	10,025	$18	158,194
U.S. Government-sponsored mortgage-backed securities	337,631	10,994	46	348,579
Corporate obligations	6,105		5,881	224
Equity securities	1,706			1,706
Total available for sale	498,104	21,184	5,945	513,343
Held to maturity at December 31, 2012				
State and municipal	117,227	5,489	1	122,715
U.S. Government-sponsored mortgage-backed securities	243,793	11,681	15	255,459
Total held to maturity	361,020	17,170	16	378,174
Total Investment Securities	$859,124	$38,354	$5,961	$891,517

The cost and yields for Federal Reserve and Federal Home Loan Bank stock are included in the table below.

	2014		2013		2012	
(Dollars in Thousands)	Cost	Yield	Cost	Yield	Cost	Yield
Federal Reserve and Federal Home Loan Bank stock at December 31:						
Federal Reserve Bank stock	$18,949	6.0 %	$13,287	6.0 %	$13,261	6.0 %
Federal Home Loan Bank stock	22,404	5.1 %	25,703	2.0 %	19,524	2.0 %
Total	$41,353	5.5 %	$38,990	3.4 %	$32,785	3.6 %

Federal Reserve and Federal Home Loan Bank stock have been reviewed for impairment and the analysis reflected no impairment. The Corporation's Federal Home Loan Bank stock is primarily in the Federal Home Loan Bank of Indianapolis and it continued to produce sufficient financial results to pay dividends.

There were no issuers included in the investment security portfolio at December 31, 2014, 2013 or 2012 where the aggregate carrying value of any one issuer exceeded 10 percent of the Corporation's stockholders' equity at those dates. The term "issuer" excludes the U.S. Government and its sponsored agencies and corporations.

The maturity distribution and average yields for the securities portfolio at December 31, 2014 were:

	Within 1 Year		1-5 Years		5-10 Years	
(Dollars in Thousands)	Amount	Yield [(1)]	Amount	Yield [(1)]	Amount	Yield [(1)]
Securities available for sale December 31, 2014						
U.S. Government-sponsored agency securities			$109	4.9 %		
State and municipal	$3,122	5.0 %	9,731	5.3 %	$50,889	5.5 %
Corporate obligations	31	0.0 %				
	$3,153	5.0 %	$9,840	5.3 %	$50,889	5.5 %

	Due After Ten Years		Equity and U.S. Government-Sponsored Mortgage - Backed Securities		Total	
	Amount	Yield [(1)]	Amount	Yield [(1)]	Amount	Yield [(1)]
U.S. Government-sponsored agency securities					$109	4.9 %
State and municipal	$164,851	5.3 %			228,593	5.3 %
Equity securities			$1,706	1.8 %	1,706	1.8 %
Corporate obligations					31	— %
U.S. Government-sponsored mortgage-backed securities			319,104	2.9 %	319,104	2.9 %
	$164,851	5.3 %	$320,810	2.9 %	$549,543	3.9 %

	Within 1 Year		1-5 Years		5-10 Years	
	Amount	Yield [1]	Amount	Yield [1]	Amount	Yield [1]
Securities held to maturity at December 31, 2014						
State and municipal	$6,258	3.2 %	$18,440	4.4 %	$85,997	6.1 %
U.S. Government-sponsored mortgage-backed securities						
	$6,258	3.2 %	$18,440	4.4 %	$85,997	6.1 %

	Due After Ten Years		Equity and U.S. Government-Sponsored Mortgage - Backed Securities		Total	
	Amount	Yield [1]	Amount	Yield [1]	Amount	Yield [1]
State and municipal	$93,748	5.2 %			$204,443	5.4 %
U.S. Government-sponsored mortgage-backed securities			$426,645	2.9 %	426,645	2.9 %
	$93,748	5.2 %	$426,645	2.9 %	$631,088	3.7 %

[1] Interest yields are presented on a fully taxable equivalent basis using a 35 percent tax rate.

The following tables show the Corporation's gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2014 and 2013:

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Temporarily Impaired Available for Sale Securities at December 31, 2014						
State and municipal	$1,256	$7	$9,850	$116	$11,106	$123
U.S. Government-sponsored mortgage-backed securities	2,186	13	5,447	114	7,633	127
Total temporarily impaired available for sale securities	3,442	20	15,297	230	18,739	250
Temporarily Impaired Held to Maturity Securities at December 31, 2014						
State and municipal	5,119	96	250		5,369	96
U.S. Government-sponsored mortgage-backed securities	9,791	82	38,491	430	48,282	512
Total temporarily impaired held to maturity securities	14,910	178	38,741	430	53,651	608
Total temporarily impaired investment securities	$18,352	$198	$54,038	$660	$72,390	$858

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Temporarily Impaired Available for Sale Securities at December 31, 2013						
U.S. Treasury	$4,875	$21			$4,875	$21
U.S. Government-sponsored agency securities	3,433	17			3,433	17
State and municipal	111,791	3,840	$583	$56	112,374	3,896
U.S. Government-sponsored mortgage-backed securities	117,866	1,701	2,683	272	120,549	1,973
Corporate obligations			2,711	3,636	2,711	3,636
Total Temporarily Impaired Available for Sale Securities	237,965	5,579	5,977	3,964	243,942	9,543
Temporarily Impaired Held to Maturity Securities at December 31, 2013						
State and municipal	17,318	91	184		17,502	91
U.S. Government-sponsored mortgage-backed securities	213,048	3,462	2,640	260	215,688	3,722
	230,366	3,553	2,824	260	233,190	3,813

Total temporarily impaired held to maturity securities						
Total temporarily impaired investment securities	$468,331	$9,132	$8,801	$4,224	$477,132	$13,356

LOAN PORTFOLIO

The following table shows the composition of the Corporation’s loan portfolio for the years indicated:

	2014		2013		2012		2011		2010	
(Dollars in Thousands)	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Loans at December 31:										
Commercial and industrial loans	$896,688	22.8 %	$761,705	21.0 %	$622,579	21.5 %	$532,523	19.6 %	$530,322	18.7 %
Agricultural production financing and other loans to farmers	104,927	2.7	114,348	3.1	112,527	3.9	104,526	3.9	95,516	3.4
Real estate loans:										
Construction	207,221	5.3	177,082	4.9	98,639	3.4	81,780	3.0	106,615	3.8
Commercial and farmland	1,672,661	42.6	1,611,809	44.4	1,266,682	43.6	1,194,230	44.0	1,229,037	43.3
Residential	647,315	16.5	616,385	17.0	473,537	16.3	481,493	17.7	522,051	18.4
Home equity	286,529	7.3	255,223	7.0	203,406	7.0	191,631	7.1	201,969	7.1
Individuals' loans for household and other personal expenditures	73,400	1.9	69,783	1.9	75,748	2.6	84,172	3.1	115,295	4.1
Lease financing receivables, net of unearned income	1,106		1,545		2,590	0.1	3,555	0.1	5,157	0.2
Other loans	35,018	0.9	24,529	0.7	46,501	1.6	39,505	1.5	29,721	1.0
Loans	3,924,865	100.0%	3,632,409	100.0%	2,902,209	100.0%	2,713,415	100.0%	2,835,683	100.0%
Allowance for loan losses	(63,964)		(67,870)		(69,366)		(70,898)		(82,977)	
Net Loans	$3,860,901		$3,564,539		$2,832,843		$2,642,517		$2,752,706	

Residential Real Estate Loans Held for Sale at December 31, 2014, 2013, 2012, 2011 and 2010 were $7,235,000, $5,331,000, $22,300,000, $17,864,000, and $21,469,000, respectively.

The Bank acquired $113.0 million of loans at a fair value discount of $19.2 million as part of the February 10, 2012 SCB transaction. The November 12, 2013 CFS acquisition included loans of $639.6 million and a fair value discount of $36.5 million. The assets acquired in the November 7, 2014 Community transaction included $153.9 million in loans which were acquired at a fair value discount of $8.8 million. Loans evidencing deterioration of credit quality since origination and it was probable, at acquisition, that all contractually required payments would not be collected are included in the above table.

The majority of the Corporation's portfolio is comprised of loans secured by commercial and farmland real estate, commercial and industrial loans and loans secured by residential real estate. Commercial and farmland real estate loans made up 42.6 percent and 44.4 percent of loans at December 31, 2014 and 2013, respectively. Commercial and industrial loans made up 22.8 percent and 21.0 percent of loans and residential real estate loans, including home equity, made up 23.8 percent and 24.0 percent of loans at December 31, 2014 and 2013, respectively. The Bank generates loans from customers primarily in central and northwest Indiana, northeast Illinois and central Ohio. The Bank's loans are generally secured by specific items of collateral, including real property, consumer assets, and business assets.

LOAN MATURITIES

Presented in the table below are the maturities of loans (excluding residential real estate, home equity, individuals' loans for household and other personal expenditures and lease financing) outstanding as of December 31, 2014. Also presented are the amounts due after one year, classified according to the sensitivity to changes in interest rates.

(Dollars in Thousands)	Maturing Within 1 Year	Maturing 1-5 Years	Maturing Over 5 Years	Total
Commercial and industrial loans	$664,359	$166,593	$65,736	$896,688
Agriculture production financing and other loans to farmers	87,738	16,334	855	104,927
Real estate loans:				
Construction	188,337	14,819	4,065	207,221
Commercial and farmland	651,626	797,429	223,606	1,672,661
Other loans	5,778	10,529	18,711	35,018
Total	$1,597,838	$1,005,704	$312,973	$2,916,515

(Dollars in Thousands)	Maturing 1-5 Years	Maturing Over 5 Years
Loans maturing after one year with:		
Fixed rate	$668,215	$275,248
Variable rate	337,489	37,725
Total	$1,005,704	$312,973

NON-PERFORMING ASSETS

The table below summarizes non-performing assets and impaired loans for the years indicated:

(Dollars in Thousands)	December 31, 2014	December 31, 2013	December 31, 2012	December 31, 2011	December 31, 2010
Non-Performing Assets:					
Non-accrual loans	$48,789	$56,402	$53,399	$69,592	$90,591
Renegotiated loans	1,992	3,048	12,681	14,308	7,139
Non-performing loans (NPL)	50,781	59,450	66,080	83,900	97,730
Other real estate owned	19,293	22,246	13,263	16,289	20,927
Non-performing assets (NPA)	70,074	81,696	79,343	100,189	118,657
90+ days delinquent and still accruing	4,663	1,350	2,037	580	1,330
NPAs & 90+ days delinquent	$74,737	$83,046	$81,380	$100,769	$119,987
Impaired loans	$116,223	$119,755	$79,179	$79,775	$116,204

Loans are reclassified to a non-accruing status when, in management’s judgment, the collateral value and financial condition of the borrower do not justify accruing interest. Interest previously recorded, but not deemed collectible, is reversed and charged against current income. Payments subsequently received on non-accrual loans are applied to principal.

At December 31, 2014, non-accrual loans and other real estate owned of $48,789,000 and $19,293,000 include assets acquired from Community of $5,674,000 and $6,662,000, respectively. At December 31, 2013, non-accrual loans and other real estate owned of $56,402,000 and $22,246,000 include assets acquired from CFS of $22,703,000 and $12,889,000, respectively. At December 31, 2012, non-accrual loans and other real estate owned of $53,399,000 and $13,263,000 include assets acquired from SCB of $4,219,000 and $160,000, respectively.

Renegotiated loans are loans for which concessions are granted to the borrower due to deterioration in the financial condition of the borrower, resulting in the inability of the borrower to meet the original contractual terms of the loans. These concessions may include interest rate reductions, principal forgiveness, extensions of maturity date or other actions intended to minimize losses. Certain loans restructured may be excluded from restructured loan disclosures in years subsequent to the restructuring if the loans are in compliance with their modified terms. A non-accrual loan that is restructured may remain non-accrual for a period of approximately six months until the borrower can demonstrate their ability to meet the restructured terms. A borrower's performance prior to the restructuring, as well as after, will be considered in assessing whether the borrower can meet the new terms resulting in the loan being returned to accruing status in a shorter or longer period of time than the standard six months. If the borrower’s performance under the modified terms is not reasonably assured, the loan will remain non-accrual.

For the year ended December 31, 2014, interest income of $1,488,000 was recognized on the non-accruing and renegotiated loans listed in the table above, whereas interest income of $6,127,000 would have been recognized under their original loan terms.

At December 31, 2014, the commercial impaired loan total of $116,223,000 included $17,027,000 in loans acquired from Community. At December 31, 2013, the commercial impaired loan total of $119,755,000 included $69,448,000 in loans acquired from CFS. At December 31, 2012, the commercial impaired loan total of $79,179,000 included

$17,334,000 in loans acquired from SCB. Commercial impaired loans include all non-accrual loans, loans accounted for under ASC 310 as well as substandard, doubtful and loss grade loans that were still accruing but deemed impaired according to guidance set forth in ASC 310. Also included in impaired loans are accruing loans that are contractually past due 90 days or more and troubled debt restructurings. A loan is deemed impaired under ASC 310 when, based on current information or events, it is probable that all amounts due of principal and interest according to the contractual terms of the loan agreement will not be collected. A specific allowance for losses was not deemed necessary for a subset of the impaired loans totaling $102,793,000, but a specific allowance of $2,769,000 was recorded for the remaining balance of $13,430,000 and is included in the Corporation's allowance for loan losses at December 31, 2014. A specific allowance totaling $650,000 was recorded on loans acquired from CFS with deteriorated credit quality in 2013, while no specific allowance was recorded on loans acquired with deteriorated credit quality from SCB in 2012 or Community in 2014. The average balance of the aforementioned total impaired loans for 2014 was $122,571,000.

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

In addition to the impaired loans discussed above, management also identified loans totaling $161,860,000 as of December 31, 2014 that were deemed to be criticized, but not impaired. These loans are not included in the table above, or the impaired loan table in the footnotes to the consolidated financial statements. A criticized loan is a loan in which there are concerns as to the borrower's ability to comply with present repayment terms, whether or not those concerns rise to the level of serious doubt.

See additional information regarding loan credit quality in Note 6. LOANS AND ALLOWANCE, in the Notes to Consolidated Financial Statements included as Item 8 of this Annual Report on Form 10-K.

SUMMARY OF LOAN LOSS EXPERIENCE

The following table summarizes the loan loss experience for the years indicated:

(Dollars in Thousands)	2014	2013	2012	2011	2010
Allowance for loans losses:					
Balances, January 1	$67,870	$69,366	$70,898	$82,977	$92,131
Charge offs:					
Commercial [(1)]	7,246	6,117	8,311	9,818	22,832
Commercial real estate [(2)]	6,608	7,493	12,322	29,807	32,823
Consumer	657	623	1,130	1,441	2,426
Residential	2,869	3,886	5,475	7,407	9,437
Finance leases	2	15	34		54
Total Charge Offs	17,382	18,134	27,272	48,473	67,572
Recoveries:					
Commercial [(3)]	5,435	4,586	1,744	8,828	6,750
Commercial real estate [(4)]	3,297	3,552	3,652	2,811	1,420
Consumer	377	556	695	942	938
Residential	1,783	1,292	1,113	1,176	2,827
Finance leases	24	4	2	7	
Total Recoveries	10,916	9,990	7,206	13,764	11,935
Net charge offs	6,466	8,144	20,066	34,709	55,637
Provisions for loan losses	2,560	6,648	18,534	22,630	46,483
Balance at December 31	$63,964	$67,870	$69,366	$70,898	$82,977
Ratio of net charge offs during the period to average loans outstanding during the period	0.17 %	0.27 %	0.71 %	1.26 %	1.82 %

See the information regarding the analysis of loan loss experience in the "Provision and Allowance for Loan Losses" section
of Management's Discussion and Analysis of Financial Condition and Results of Operations included as Item 7 of this Annual Report on Form 10-K.

(1) Category includes the charge offs for commercial and industrial, agricultural production financing and other loans to farmers and other non-consumer loans.

(2) Category includes the charge offs for construction, commercial and farmland.

(3) Category includes the recoveries for commercial and industrial, agricultural production financing and other loans to farmers and other non-consumer loans.

(4) Category includes the recoveries for construction, commercial and farmland.

ALLOCATION OF THE ALLOWANCE FOR LOAN LOSSES

Presented below is an analysis of the composition of the allowance for loan losses and percent of loans in each category to total loans as of December 31, 2014, 2013, 2012, 2011 and 2010.

	2014		2013		2012		2011		2010	
(Dollars in Thousands)	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Balance at December 31:										
Commercial	$28,824	26.4 %	$27,176	24.8 %	$25,913	26.9 %	$17,731	24.9 %	$32,508	23.1 %
Commercial real estate	19,327	47.9	23,102	49.3	26,703	47.1	37,919	47.1	36,341	47.1
Consumer	2,658	1.9	2,515	1.9	2,593	2.6	2,902	3.1	3,622	4.1
Residential	13,152	23.8	15,077	24.0	14,157	23.3	12,343	24.8	10,408	25.5
Finance leases	3					0.1	3	0.1	98	0.2
Totals	$63,964	100.0 %	$67,870	100.0 %	$69,366	100.0 %	$70,898	100.0 %	$82,977	100.0 %

Loan concentrations are considered to exist when there are amounts loaned to multiple borrowers engaged in similar activities, which would cause them to be similarly impacted by economic or other conditions. As of December 31, 2014, the only concentrations of commercial loans within a single industry (as segregated by North American Industry Classification System (“NAICS code”) in excess of 10 percent of loans were Lessors of Nonresidential Buildings and Lessors of Residential Buildings and Dwellings.

LOAN LOSS CHARGE OFF PROCEDURES

The Corporation maintains an allowance for loan losses to cover probable credit losses identified during its loan review process. The allowance is increased by the provision for loan losses and decreased by charge offs less recoveries. All charge offs are approved by the Bank’s senior loan officers or loan committees, depending on the amount of the charge off, and are reported to the Bank’s Board of Directors. The Bank charges off loans when a determination is made that all or a portion of a loan is uncollectible.

PROVISION FOR LOAN LOSSES

In banking, loan losses are a cost of doing business. Although Bank management emphasizes the early detection and charge off of loan losses, it is inevitable that certain losses, which have not been specifically identified, exist in the portfolio. Accordingly, the provision for loan losses is charged to earnings on an anticipatory basis, and recognized loan losses net of recoveries are deducted from the established allowance. Over time, all net loan losses are charged to earnings. During the year, an estimate of the expected losses for the year serves as a starting point in determining the appropriate level of the provision for loan losses. Based on management’s judgment as to the appropriate level of the allowance for loan losses the amount actually provided in any period may be greater or less than net loan losses for the same period. The determination of the provision for loan losses in any period is based on management’s continuing review and evaluation of the loan portfolio, and its judgment as to the impact of current economic conditions on the portfolio. The evaluation by management includes consideration of past loan loss experience, changes in the composition of the loan portfolio, and the current condition and amount of loans outstanding. See additional information in the “Provision and Allowance For Loan Losses” section of Management’s Discussion and Analysis of

Financial Condition and Results of Operations included as Item 7 of this Annual Report on Form 10-K.

DEPOSITS

The average balances, interest expense and average rates on deposits for the years ended December 2014, 2013 and 2012 are presented in the Part I. Item I. Business section titled "DISTRIBUTION OF ASSETS, LIABILITIES AND STOCKHOLDERS' EQUITY, INTEREST RATES AND INTEREST DIFFERENTIAL" of this Annual Report on Form 10-K.

As of December 31, 2014, certificates of deposit and other time deposits of $100,000 or more mature as follows:

(Dollars in Thousands)	Maturing 3 Months or Less	Maturing 3-6 Months	Maturing 6-12 Months	Maturing Over 12 Months	Total
Certificates of deposit and other time deposits	$50,767	$33,463	$60,380	$116,075	$260,685
Percent	19 %	13 %	23 %	45 %	100 %

RETURN ON EQUITY AND ASSETS

See the information regarding return on equity and assets presented within Part II: Item 6. SELECTED FINANCIAL DATA of this Annual Report on Form 10-K.

SHORT-TERM BORROWINGS

Borrowings maturing in one year or less are included in the following table:

(Dollars in Thousands)	2014	2013	2012
Balance at December 31:			
Federal funds purchased	$15,381	$125,645	$18,862
Securities sold under repurchase agreements (short-term portion)	124,539	148,672	131,828
Federal Home Loan Bank advances (short-term portion)	30,701	26,272	1,434
Subordinated debentures and term loans (short-term portion)	108	105	459
Total short-term borrowings	$170,729	$300,694	$152,583

Securities sold under repurchase agreements are categorized as borrowings maturing within one year and are secured by U.S. Treasury and U.S. Government-Sponsored Enterprise obligations, certain municipal securities and mortgage loans.

Pertinent information with respect to short-term borrowings is summarized below:

(Dollars in Thousands)	2014		2013		2012	
Weighted Average Interest Rate on Outstanding Balance at December 31:						
Federal funds purchased	0.3	%	0.3	%	0.2	%
Securities sold under repurchase agreements (short-term portion)	0.3	%	0.5	%	0.2	%
Federal Home Loan Bank advances (short-term portion)	2.0	%	1.1	%	2.0	%
Subordinated debentures and term loans (short-term portion)						
Total short-term borrowings	0.6	%	0.5	%	0.2	%
Weighted Average Interest Rate During the Year:						
Federal funds purchased	0.4	%	0.4	%	0.3	%
Securities sold under repurchase agreements (short-term portion)	0.4	%	0.6	%	0.3	%
Federal Home Loan Bank advances (short-term portion)	0.9	%	0.8	%	3.4	%
Subordinated debentures and term loans (short-term portion)					2.9	%
Total short-term borrowings	0.6	%	0.6	%	0.9	%
Highest Amount Outstanding at Any Month End During the Year:						
Federal funds purchased	$121,192		$125,645		$87,571	
Securities sold under repurchase agreements (short-term portion)	155,941		151,813		150,126	
Federal Home Loan Bank advances (short-term portion)	190,709		76,272		52,504	
Subordinated debentures and term loans (short-term portion)	470		459		79,467	
Total short-term borrowings	$468,312		$354,189		$369,668	
Average Amount Outstanding During the year:						
Federal funds purchased	$44,674		$26,789		$20,072	
Securities sold under repurchase agreements (short-term portion)	130,910		140,126		134,555	
Federal Home Loan Bank advances (short-term portion)	96,284		22,807		20,869	
Subordinated debentures and term loans (short-term portion)	232		187		19,337	
Total short-term borrowings	$272,100		$189,909		$194,833	

ITEM 1A. RISK FACTORS

RISK FACTORS

There are a number of factors, including those specified below, that may adversely affect the Corporation’s business, financial results or stock price. Additional risks that the Corporation currently does not know about or currently views as immaterial may also impair the Corporation’s business or adversely impact its financial results or stock price.

INDUSTRY AND CORPORATE RISK FACTORS

The Corporation’s business and financial results are significantly affected by general business and economic conditions.

The Corporation’s business activities and earnings are affected by general business conditions in the United States and abroad. These conditions include short-term and long-term interest rates, inflation, monetary supply, fluctuations in both debt and equity capital markets, and the strength of the United States economy and the state and local economies in which the Corporation operates. For example, a prolonged economic downturn, continued increase in unemployment, or other events that affect household and/or corporate incomes could result in deterioration of credit quality, an increase in the allowance for loan losses, or reduced demand for loan or fee-based products and services. Changes in the financial performance and condition of the Corporation’s borrowers could negatively affect repayment of those borrowers’ loans. In addition, changes in securities market conditions and monetary fluctuations could adversely affect the availability and terms of funding necessary to meet the Corporation’s liquidity needs.

- Changes in the domestic interest rate environment could reduce the Corporation’s net interest income.

The operations of financial institutions, such as the Corporation, are dependent to a large degree on net interest income, which is the difference between interest income from loans and investments and interest expense on deposits and borrowings. An institution’s net interest income is significantly affected by market rates of interest, which in turn are affected by prevailing economic conditions, by the fiscal and monetary policies of the federal government and by the policies of various regulatory agencies. Like all financial institutions, the Corporation’s balance sheet is affected by fluctuations in interest rates. Volatility in interest rates can also result in the flow of funds away from financial institutions into direct investments. Direct investments, such as U.S. Government and corporate securities and other investment vehicles, including mutual funds, generally pay higher rates of return than financial institutions, because of the absence of federal insurance premiums and reserve requirements.

- Changes in the laws, regulations and policies governing banks and financial services companies could alter the Corporation’s business environment and adversely affect operations.

The Board of Governors of the Federal Reserve System regulates the supply of money and credit in the United States. Its fiscal and monetary policies determine in a large part the Corporation’s cost of funds for lending and investing and the return that can be earned on those loans and investments, both of which affect the Corporation’s net interest margin. Federal Reserve Board policies can also materially affect the value of financial instruments that the Corporation holds, such as debt securities. The Corporation and the Bank are heavily regulated at the federal and state levels. This regulation is to protect depositors, federal deposit insurance funds and the banking system as a whole. Congress and state legislatures and federal and state agencies continually review banking laws, regulations and policies for possible changes. Changes in statutes, regulations or policies could affect the Corporation in substantial and unpredictable ways, including limiting the types of financial services and products that the Corporation offers and/or increasing the ability of non-banks to offer competing financial services and products.

The Corporation cannot predict whether any of this potential legislation will be enacted, and if enacted, the effect that it or any regulations would have on the Corporation’s financial condition or results of operations. See a description of recent legislation in the “Legislature and Regulatory Initiatives to Address Financial and Economic Crises” section of Item 1: Business of this Annual Report on Form 10-K.

- The banking and financial services industry is highly competitive, and competitive pressures could intensify and adversely affect the Corporation’s financial results.

The Corporation operates in a highly competitive industry that could become even more competitive as a result of legislative, regulatory and technological changes and continued consolidation. The Corporation competes with other banks, savings and loan associations, mutual savings banks, finance companies, mortgage banking companies, credit unions and investment companies. In addition, technology has lowered barriers to entry and made it possible for non-banks to offer products and services traditionally provided by banks. Many of the Corporation’s competitors have fewer regulatory constraints and some have lower cost structures. Also, the potential need to adapt to industry changes in information technology systems, on which the Corporation and financial services industry are highly dependent, could present operational issues and require capital spending.

- Acts or threats of terrorism and political or military actions taken by the United States or other governments could adversely affect general economic or industry conditions.

Geopolitical conditions may also affect the Corporation’s earnings. Acts or threats of terrorism and political or military actions taken by the United States or other governments in response to terrorism, or similar activity, could adversely affect general economic or industry conditions.

- The Corporation's allowance for loan losses may not be adequate to cover actual losses.

The Corporation maintains an allowance for loan losses to provide for loan defaults and non-performance. The allowance for loan losses represents management's estimate of probable losses inherent in the Corporation's loan portfolio. The Corporation's allowance consists of three components: probable losses estimated from individual reviews of specific loans, probable losses estimated from historical loss rates, and probable losses resulting from economic, environmental, qualitative or other deterioration above and beyond what is reflected in the first two components of the allowance. The process for determining the adequacy of the allowance for loan losses is critical to the Corporation's financial results. It requires management to make difficult, subjective and complex judgments, as a result of the need to make estimates about the effect of matters that are uncertain. Therefore, the allowance for loan losses, considering current factors at the time, including economic conditions and ongoing internal and external examination processes, will increase or decrease as deemed necessary to ensure the allowance for loan losses remains adequate. In addition, the allowance as a percentage of charge offs and nonperforming loans will change at different points in time based on credit performance, loan mix and collateral values.

In connection with recent economic developments, many financial institutions, including the Corporation, have experienced unusual and significant declines in the performance of their loan portfolios, and the values of real estate collateral supporting many loans have declined. If current trends in the housing and real estate markets continue, it is likely that loan delinquencies and credit losses may increase. Although the Corporation believes its underwriting and loan review procedures are appropriate for the various kinds of loans it makes, the Corporation's results of operations and financial condition will be adversely affected in the event the quality of its loan portfolio deteriorates.

- The Corporation may suffer losses in its loan portfolio despite its underwriting practices.

The Corporation seeks to mitigate the risks inherent in its loan portfolio by adhering to specific underwriting practices. The Corporation's strategy for credit risk management includes conservative credit policies and underwriting criteria for all loans, as well as an overall credit limit for each customer significantly below legal lending limits. The strategy also emphasizes diversification on a regional geographic, industry and customer level, regular credit quality reviews and management reviews of large credit exposures and loans experiencing deterioration of credit quality. There is a continuous review of the loan portfolio, including an internally administered loan "watch" list and an independent loan review. The evaluation takes into consideration identified credit problems, as well as the possibility of losses inherent in the loan portfolio that are not specifically identified. Although the Corporation believes that its underwriting criteria are appropriate for the various kinds of loans it makes, the Corporation may incur losses on loans due to the factors previously discussed.

- The Corporation faces operational risks because the nature of the financial services business involves a high volume of transactions.

The Corporation operates in diverse markets and relies on the ability of its employees and systems to process a high number of transactions. Operational risk is the risk of loss resulting from the Corporation's operations, including, but not limited to, the risk of fraud by employees or persons outside of the Corporation, the execution of unauthorized transactions by employees, errors relating to transaction processing and technology, breaches of the internal control system and compliance requirements and business continuation and disaster recovery. This risk of loss also includes the potential legal actions that could arise as a result of an operational deficiency or as a result of noncompliance with applicable regulatory standards, adverse business decisions or their implementation, and customer attrition due to potential negative publicity. In the event of a breakdown in the internal control system, improper operation of systems or improper employee actions, the Corporation could suffer financial loss, face regulatory action and suffer damage to its reputation.

- A natural disaster could harm the Corporation’s business.

Natural disasters could harm the Corporation’s operations directly through interference with communications, as well as through the destruction of facilities and operational, financial and management information systems. These events could prevent the Corporation from gathering deposits, originating loans and processing and controlling its flow of business.

- The Corporation faces systems failure risks as well as security risks, including “hacking” and “identity theft”.

The computer systems and network infrastructure the Corporation uses could be vulnerable to unforeseen problems. The Corporation’s operations are dependent upon the ability to protect computer equipment against damage from fire, power loss or telecommunication failure. Any damage or failure that causes an interruption in operations could adversely affect the business and financial results. In addition, computer systems and network infrastructure present security risks, and could be susceptible to hacking or identity theft.

- The Corporation relies on dividends from its subsidiaries for its liquidity needs.

The Corporation is a separate and distinct legal entity from its bank and non-bank subsidiaries. The Corporation receives substantially all of its cash from dividends paid by its subsidiaries. These dividends are the principal source of funds to pay dividends on the Corporation’s stock and interest and principal on its debt. Various federal and state laws and regulations limit the amount of dividends that the bank subsidiaries may pay to the Corporation.

- The Corporation’s reported financial results depend on management’s selection of accounting methods and certain assumptions and estimates.

The Corporation’s accounting policies and methods are fundamental to how it records and reports its financial condition and results of operations. The Corporation’s management must exercise judgment in selecting and applying many of these accounting policies and methods, so they comply with Generally Accepted Accounting Principles and reflect management’s judgment of the most appropriate manner to report the Corporation’s financial condition and results. In some cases, management must select the accounting policy or method to apply from two or more alternatives, any of which might be reasonable under the circumstances yet might result in the Corporation’s reporting materially different results than would have been reported under a different alternative. Certain accounting policies are critical to presenting the Corporation’s financial condition and results, and require management to make difficult, subjective or complex judgments about matters that are uncertain. Materially different amounts could be reported under different conditions or using different assumptions or estimates. These critical accounting policies include: the allowance for loan losses; the valuation of investment securities; the valuation of goodwill and intangible assets; and pension accounting. Because of the uncertainty of estimates involved in these matters, the Corporation may be required to do one or more of the following: significantly increase the allowance for loan losses and/or sustain loan losses that are significantly higher than the reserve provided; recognize significant provision for impairment of its investment securities; recognize significant impairment on its goodwill and intangible assets; or significantly increase its pension liability. As part of its function of assisting the Corporation’s Board of Directors in discharging its responsibility of ensuring all types of risk to the organization are properly being managed, mitigated and monitored by management, the Audit Committee of the Board of Directors oversees management’s accounting policies and methods. For more information, refer to “CRITICAL ACCOUNTING POLICIES” under Item 7 Part II of Management’s Discussion and Analysis of Financial Condition and Results of Operations of this Annual Report on Form 10-K.

- A write-down of all or part of the Corporation’s goodwill could materially reduce its net income and net worth.

At December 31, 2014, the Corporation had goodwill of $202,724,000 recorded on its consolidated balance sheet. Under ASC 340-20, Other Assets and Deferred Costs, the Corporation is required to evaluate goodwill for impairment on an annual basis, as well as on an interim basis, if events or changes indicate that the asset may be impaired. An impairment loss must be recognized for any excess of carrying value over the fair value of goodwill. The fair value is determined based on internal valuations using management’s assumptions of future growth rates, future attrition, discount rates, multiples of earnings or other relevant factors. The resulting estimated fair value could result in material write-downs of goodwill and recording of impairment losses. Such a write-down could materially reduce the Corporation’s net income and overall net worth. The Corporation also cannot predict the occurrence of certain future events that might adversely affect the fair value of goodwill. Such events include, but are not limited to, strategic decisions made in response to economic and competitive conditions, the effect of the economic environment on the Corporation’s customer base, or a material negative change in its relationship with significant customers.

- Changes in accounting standards could materially impact the Corporation’s financial statements.

From time to time, the Financial Accounting Standards Board changes the financial accounting and reporting standards that govern the preparation of the Corporation’s financial statements. These changes can be hard to predict and can materially impact how the Corporation records and reports its financial condition and results of operations. In some cases, the Corporation could be required to apply a new or revised standard retroactively; resulting in the restating of prior period financial statements.

- Significant legal actions could subject the Corporation to substantial uninsured liabilities.

The Corporation is from time to time subject to claims related to its operations. These claims and legal actions, including supervisory actions by the Corporation’s regulators, could involve large monetary claims and significant defense costs. To protect itself from the cost of these claims, the Corporation maintains insurance coverage in amounts and with deductibles that it believes are appropriate for its operations. However, the Corporation’s insurance coverage may not cover all claims against the Corporation or continue to be available to the Corporation at a reasonable cost. As a result, the Corporation may be exposed to substantial uninsured liabilities, which could adversely affect the Corporation’s results of operations and financial condition

- Negative publicity could damage the Corporation’s reputation and adversely impact its business and financial results.

Reputation risk, or the risk to the Corporation’s earnings and capital from negative publicity, is inherent in the Corporation’s business. Negative publicity can result from the Corporation’s actual or alleged conduct in any number of activities, including lending practices, corporate governance and acquisitions, and actions taken by government regulators and community organizations in response to those activities. Negative publicity can adversely affect the Corporation’s ability to keep and attract customers and can expose the Corporation to litigation and regulatory action. Although the Corporation takes steps to minimize reputation risk in dealing with customers and other constituencies, the Corporation is inherently exposed to this risk.

- Acquisitions may not produce revenue enhancements or cost savings at levels or within timeframes originally anticipated and may result in unforeseen integration difficulties.

The Corporation regularly explores opportunities to acquire banks, financial institutions, or other financial services businesses or assets. The Corporation cannot predict the number, size or timing of acquisitions. Difficulty in integrating an acquired business or company may cause the Corporation not to realize expected revenue increases, cost savings, increases in geographic or product presence, and/or other projected benefits from the acquisition. The integration could result in higher than expected deposit attrition (run-off), loss of key employees, disruption of the Corporation’s business or the business of the acquired company, or otherwise adversely affect the Corporation’s ability to maintain relationships with customers and employees or achieve the anticipated benefits of the acquisition. Also, the negative effect of any divestitures required by regulatory authorities in acquisitions or business combinations may be greater than expected.

- The Corporation may not be able to pay dividends in the future in accordance with past practice.

The Corporation has traditionally paid a quarterly dividend to common stockholders. The payment of dividends is subject to legal and regulatory restrictions. Any payment of dividends in the future will depend, in large part, on the Corporation’s earnings, capital requirements, financial condition and other factors considered relevant by the Corporation’s Board of Directors.

- The Corporation’s stock price can be volatile.

The Corporation’s stock price can fluctuate widely in response to a variety of factors, including: actual or anticipated variations in the Corporation’s quarterly operating results; recommendations by securities analysts; significant acquisitions or business combinations; strategic partnerships, joint ventures or capital commitments; operating and stock price performance of other companies that investors deem comparable to the Corporation; new technology used or services offered by the Corporation’s competitors; news reports relating to trends, concerns and other issues in the banking and financial services industry, and changes in government regulations. General market fluctuations, industry factors and general economic and political conditions and events, including terrorist attacks, economic slowdowns or recessions, interest rate changes, credit loss trends or currency fluctuations, could also cause the Corporation’s stock price to decrease, regardless of the Corporation’s operating results.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

The headquarters of the Corporation and the Bank is located at 200 East Jackson Street, Muncie, Indiana. The building is owned by the Bank.

The Bank conducts business through numerous facilities owned and leased. Of the106 banking offices operated by the Bank, 78 are owned and 28 are leased from non-affiliated third parties.

None of the properties owned by the Corporation are subject to any major encumbrances. The net investment of the Corporation and subsidiaries in real estate and equipment at December 31, 2014 was $77,691,000.

ITEM 3. LEGAL PROCEEDINGS.

There is no pending legal proceeding, other than ordinary routine litigation incidental to the business of the Corporation or its subsidiaries, of a material nature to which the Corporation or its subsidiaries is a party or of which any of their properties are subject. Further, there is no material legal proceeding in which any director, officer, principal shareholder, or affiliate of the Corporation, or any associate of any such director, officer or principal shareholder, is a party, or has a material interest, adverse to the Corporation or any of its subsidiaries.

None of the routine legal proceedings, individually or in the aggregate, in which the Corporation or its affiliates are involved are expected to have a material adverse impact on the financial position or the results of operations of the Corporation.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

SUPPLEMENTAL INFORMATION - EXECUTIVE OFFICERS OF THE REGISTRANT

The names, ages, and positions with the Corporation and the Bank of all executive officers of the Corporation and all persons chosen to become executive officers are listed below. The officers are elected by the Board of Directors of the Corporation for a term of one year or until the election of their successors. There are no arrangements between any officer and any other person pursuant to which he or she was selected as an officer.

Michael C. Rechin, 56, President and Chief Executive Officer, Corporation
Chief Executive Officer of the Corporation since April 2007; Chief Operating Officer of the Corporation from November 2005 to April 2007; Executive Vice President, Corporate Banking National City Bank from 1995 to November 2005.

Mark K. Hardwick, 44, Executive Vice President and Chief Financial Officer, Corporation
Executive Vice President and Chief Financial Officer of the Corporation since December 2005; Senior Vice President and Chief Financial Officer of the Corporation from April 2002 to December 2005; Corporate Controller of the Corporation from November 1997 to April 2002.

Michael J. Stewart, 49, Executive Vice President and Chief Banking Officer, Corporation
Executive Vice President and Chief Banking Officer of the Corporation since February 2008; Executive Vice President from December 2006 to February 2008 of National City Corp; Executive Vice President and Chief Credit Officer of National City Bank of Indiana from December 2002 to December 2006.

John J. Martin, 48, Executive Vice President and Chief Credit Officer, Corporation
Executive Vice President and Chief Credit Officer of the Corporation since March 2013; Senior Vice President and Chief Credit Officer of the Corporation from June 2009 to March 2013; First Vice President and Deputy Chief Credit Officer of the Corporation from July 2008 to June 2009; First Vice President and Senior Manager of Lending Process of the Corporation from January 2008 to July 2008; Senior Vice President and Regional Senior Credit Officer of National City Bank from May 2000 to December 2007.

Stephan H. Fluhler, 46, Senior Vice President, Chief Information Officer, Corporation
Senior Vice President and Chief Information Officer of the Corporation since May 2014; Chief Technology Officer of the Corporation from 2004 to May 2014; Director of Technology Services and Change Management of the Corporation from December 2003 to 2004.

Kimberly J. Ellington, 55, Senior Vice President and Director of Human Resources, Corporation
Senior Vice President and Director of Human Resources of the Corporation since 2004; Vice President and Director of Human Resources of the Corporation from 1999 to 2004.

Jeffrey B. Lorentson, 51, Senior Vice President and Chief Risk Officer, Corporation
Senior Vice President and Chief Risk Officer of the Corporation since June 2007; Corporate Controller of First Indiana Bank from June 2006 to June 2007; First Vice President and Corporate Controller of the Corporation from 2003 to 2006; Vice President and Corporate Controller of the Corporation from 2002 to 2003.

PART II

ITEM 5. MARKET FOR THE REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

PERFORMANCE GRAPH

The following graph compares the cumulative 5-year total return to shareholders on First Merchants Corporation’s common stock relative to the cumulative total returns of the Russell 2000 index, the SNL Bank $1B - $5B index, and the SNL Bank $5B - $10B index. The graph assumes that the value of the investment in the Corporation’s common stock and in each of the indexes (including reinvestment of dividends) was $100 on December 31, 2009 and tracks it through December 31, 2014.

		Period Ending				
Index	12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014
First Merchants Corporation	$100.00	$149.93	$144.04	$254.35	$393.46	$399.45
Russell 2000	100.00	126.86	121.56	141.43	196.34	205.95
SNL Bank $1B-$5B	100.00	113.35	103.38	127.47	185.36	193.81
SNL Bank $5B-$10B	100.00	108.48	107.66	126.64	195.38	201.25

The stock price performance included in this graph is not necessarily indicative of future stock price performance.

STOCK INFORMATION

	Price Per Share					
	HIGH		LOW		Dividends Declared [1]	
Quarter	2014	2013	2014	2013	2014	2013
First quarter	$22.66	$15.97	$19.74	$14.51	$0.05	$0.03
Second quarter	22.80	17.48	19.38	14.08	0.08	0.05
Third quarter	22.10	19.15	19.46	16.67	0.08	0.05
Fourth quarter	23.39	23.35	19.94	17.34	0.08	0.05

Numbers rounded to nearest cent when applicable.

The table above lists per share prices and dividend payments during 2014 and 2013. Prices are as reported by the National Association of Securities Dealers Automated Quotation – Global Select Market System.

COMMON STOCK LISTING

First Merchants Corporation common stock is traded over-the-counter on the NASDAQ Global Select Market System. Quotations are carried in many daily papers. The NASDAQ symbol is FRME (Cusip #320817-10-9). At the close of business on February 20, 2015, the number of shares outstanding was 37,680,604. There were 5,676 stockholders of record on that date.

PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASES

There were no purchases of the Corporation’s common stock by or on behalf of the Corporation during the quarter ended December 31, 2014.

[1] The “DIVIDEND LIMITATIONS” section of “BUSINESS” included as Item 1 of this Annual Report on Form 10-K, the “CAPITAL” and “LIQUIDITY” sections of “Management's Discussion & Analysis of Financial Condition and Results of Operations” included as Item 7 of this Annual Report on Form 10-K and Note 16. STOCKHOLDERS’ EQUITY to the Notes to Consolidated Financial Statements included as Item 8 of this Annual Report on Form 10-K include discussions regarding dividend restrictions.

EQUITY COMPENSATION PLAN INFORMATION

The following table provides information about the Corporation’s common stock that may be issued under equity compensation plans as of December 31, 2014.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercised price of outstanding options warrants and rights	Number of securities remaining available for future issuance under equity compensations plans (excluding securities reflected in first column)
Equity compensation plans approved by stockholders	737,931	$ 20.99	752,634
Total	737,931	$ 20.99	752,634

ITEM 6. SELECTED FINANCIAL DATA.

(Dollars in Thousands, Except Share Data)	2014	2013	2012	2011	2010
Operations [(1) (2) (3)]					
Net interest income fully taxable equivalent (FTE) basis	$194,958	$160,308	$158,081	$149,114	$149,434
Less tax equivalent adjustment	7,921	6,043	5,745	5,759	5,865
Net interest income	187,037	154,265	152,336	143,355	143,569
Provision for loan losses	2,560	6,648	18,534	22,630	46,483
Net interest income after provision for loan losses	184,477	147,617	133,802	120,725	97,086
Total other income	65,667	54,809	64,302	49,120	48,544
Total other expenses	168,592	143,219	137,115	135,938	142,311
Income before income tax expense (benefit)	81,552	59,207	60,989	33,907	3,319
Income tax expense (benefit)	21,390	14,677	15,867	8,655	(3,590)
Net income	60,162	44,530	45,122	25,252	6,909
Gain on exchange of preferred stock to trust preferred debt					11,353
Loss on CPP unamortized discount				(1,401)	(1,301)
Loss on extinguishment of trust preferred securities				(10,857)	
Preferred stock dividends and discount accretion		(2,380)	(4,539)	(3,981)	(5,239)
Net income available to common stockholders	$60,162	$42,150	$40,583	$9,013	$11,722
Per Share Data					
Basic net income available to common stockholders	$1.66	$1.42	$1.42	$0.34	$0.48
Diluted net income available to common stockholders	1.65	1.41	1.41	0.34	0.48
Cash dividends paid - common	0.29	0.18	0.10	0.04	0.04
December 31 book value - common	19.29	17.67	16.08	14.83	15.11
December 31 tangible book value - common	13.65	12.17	10.95	9.64	9.21
December 31 market value (bid price) - common	22.75	22.72	14.84	8.47	8.86
Average Balances [(1) (2) (3)]					
Total assets	$5,571,354	$4,455,411	$4,245,996	$4,143,850	$4,271,715
Total Loans [(4)]	3,730,080	3,008,555	2,819,816	2,748,684	3,050,850
Earning assets	4,985,338	4,017,247	3,833,174	3,744,027	3,862,493
Total deposits	4,363,955	3,465,640	3,263,020	3,175,762	3,337,747
Total stockholders' equity	675,295	540,255	535,497	478,440	470,379
Year-End Balances [(1) (2) (3)]					
Total assets	$5,824,127	$5,437,262	$4,304,821	$4,173,076	$4,170,848

Total Loans [4]	3,932,100	3,637,740	2,924,509	2,731,279	2,857,152
Allowance for loan losses	63,964	67,870	69,366	70,898	82,977
Total deposits	4,640,694	4,231,468	3,346,383	3,134,655	3,268,880
Total stockholders' equity	726,827	634,923	552,236	514,467	454,408
Financial Ratios [1] [2] [3]					
Return on average assets	1.08 %	0.95 %	0.96 %	0.22 %	0.27 %
Return on average stockholders' equity	8.91	7.80	7.58	1.88	2.49
Average earning assets to total assets	89.48	90.17	90.28	90.35	90.42
Allowance for loan losses as % of total loans	1.63	1.87	2.37	2.60	2.90
Dividend payout ratio	17.58	12.77	7.09	11.76	8.33
Average stockholders' equity to average assets	12.12	12.13	12.61	11.55	11.01
Tax equivalent yield on earning assets	4.35	4.40	4.74	4.99	5.32
Cost of supporting liabilities	0.44	0.41	0.62	1.01	1.45
Net interest margin on earning assets	3.91	3.99	4.12	3.98	3.87

[1] Effective February 10, 2012, the Bank assumed substantially all of the deposits and certain other liabilities and acquired certain assets of SCB Bank, a federal savings bank headquartered in Shelbyville, Indiana, from the Federal Deposit Insurance Corporation ("FDIC"), as receiver for SCB Bank, pursuant to the terms of the Purchase and Assumption Agreement - Modified Whole Bank; All Deposits (the “Agreement”), entered into by the Bank, the FDIC as receiver of SCB Bank and the FDIC. Under the terms of the Agreement, the Bank acquired $147.7 million in assets, including approximately $11.9 million of cash and cash equivalents, $18.9 million of marketable securities, $1.8 million in Federal Home Loan Bank stock, $113.0 million in loans and $2.1 million of premises and other assets. The asset balances are book balances and do not reflect the fair value discount of $29.0 million from book value. The Bank assumed approximately $135.7 million of liabilities, including $125.9 million in customer deposits, $9.6 million of other borrowings and $402,000 in other liabilities. The bid accepted by the FDIC included no deposit premium.

[2] Effective November 12, 2013, the Corporation acquired 100 percent of CFS Bancorp, Inc. ("CFS") in an all stock transaction. CFS was headquartered in Munster, Indiana and had 20 banking centers in northwestern Indiana and northeastern Illinois. Pursuant to the merger agreement, the shareholders of CFS received 0.65 percent of a share of the Corporation's common stock for each share of CFS common stock held. The Corporation issued approximately 7.1 million shares of common stock, which was valued at approximately $135.6 million. The details of the acquisition can be found in Note 3. BUSINESS COMBINATIONS, in the Notes to Consolidated Financial Statements included as Item 8 of this Annual Report on Form 10-K.

[3] Effective November 7, 2014, the Corporation acquired 100 percent of Community Bancshares, Inc. ("Community"). Community was headquartered in Noblesville, IN and had 10 banking centers serving central Indiana. Pursuant to the merger agreement, each outstanding share of common stock of Community was converted into the right to receive either (a) 4.0926 shares of First Merchants' common stock, plus cash in lieu of fractional shares; or (b) $85.94 in cash, based upon shareholder elections. The Corporation paid $14.2 million in cash and issued approximately 1.6 million shares of common stock, valued at $35.0 million, for a total purchase price of approximately $49.2 million. The details of the acquisition can be found in Note 3. BUSINESS COMBINATIONS, in the Notes to Consolidated Financial Statements included as Item 8 of this Annual Report on Form 10-K.

[4] Includes loans held for sale.

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

CRITICAL ACCOUNTING POLICIES

Generally accepted accounting principles require management to apply significant judgment to certain accounting, reporting and disclosure matters. Management must use assumptions and estimates to apply those principles where actual measurement is not possible or practical. For a complete discussion of the Corporation’s significant accounting policies, see Note 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES in the Notes to Consolidated Financial Statements included as Item 8 of this Annual Report on Form 10-K for additional detail.

RESULTS OF OPERATIONS – 2014

Net income available to stockholders was $60.2 million, or $1.65 per fully diluted common share, an increase of $18.0 million compared to $42.2 million, or $1.41 per fully diluted common share in 2013. On November 12, 2013, the Corporation acquired CFS Bancorp, Inc. ("CFS"), and on November 7, 2014, the Corporation acquired Community Bancshares, Inc. ("Community"). Details of both transactions are included in Note 3. BUSINESS COMBINATIONS, included within the Notes to Consolidated Condensed Financial Statements included as Item 8 of this Annual Report on Form 10-K.

As of December 31, 2014, total assets equaled $5.8 billion, an increase of $386.9 million from December 31, 2013. Loans and investments, the Corporation’s primary earning assets, totaled $5.1 billion, an increase of $379.4 million from the prior year’s total of $4.7 billion. Investments increased $85.1 million and total loans increased $294.3 million. The Corporation acquired $145.1 million in loans as a result of the Community acquisition.

The Corporation’s allowance for loan losses totaled $64.0 million as of December 31, 2014. The allowance provides 131.1 percent coverage of all non-accrual loans and 1.63 percent of total loans. Details of the Allowance for Loan Losses and non-performing loans are discussed within the “Loan Quality” and “Provision and Allowance for Loan Losses” sections of Management’s Discussion and Analysis of Financial Condition and Results of Operations included as Item 7 of this Annual Report on Form 10-K.

The Corporation recognized increases in goodwill and core deposit intangible of $13.8 million and $4.7 million, respectively, as a result of the Community acquisition.

At December 31, 2014, other real estate owned totaled $19.3 million, a decrease of $2.9 million from the December 31, 2013 balance of $22.2 million. Included in the December 31, 2014 balance was $6.7 million acquired in the Community acquisition.

Taxes, both current and deferred, decreased in 2014 by $14.7 million. Details related to the change in taxes are discussed within the “Income Taxes” section of the Management’s Discussion and Analysis of Financial Condition and Results of Operations included as Item 7 of this Annual Report on Form 10-K and in Note 22. INCOME TAX of the Notes to Consolidated Financial Statements included as Item 8 of this Annual Report on Form 10-K.

Other assets of $20.8 million at December 31, 2014, decreased $8.2 million from December 31, 2013. Included in the decrease was an $11.1 million decrease in prepaid pension expense. Additional details related to the prepaid pension expense are discussed in Note 21. PENSION AND OTHER POST RETIREMENT BENEFIT PLANS, of the Notes to Consolidated Financial Statements included as Item 8 of this Annual Report on Form 10-K.

Deposits increased $409.2 million from December 31, 2013, while borrowings decreased $111.3 million during the same period. As part of the Community acquisition, the Bank acquired deposits of $228.4 million.

As part of the Community acquisition, the Corporation issued approximately 1.6 million shares of common stock valued at $35.0 million. Additional details of this transaction are discussed in Note 16. STOCKHOLDERS' EQUITY of the Notes to Consolidated Financial Statements included as Item 8 of this Annual Report on Form 10-K.

The Corporation was able to maintain all regulatory capital ratios in excess of the regulatory definition of “well-capitalized” as discussed in the “CAPITAL” section of Management’s Discussion and Analysis of Financial Condition and Results of Operations included as Item 7 of this Annual Report on Form 10-K.

PART II: ITEM 7. AND ITEM 7A. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS – 2013

Net income available to stockholders was $42.2 million, or $1.41 per fully diluted common share, an increase of $1.6 million compared to $40.6 million, or $1.41 per fully diluted common share in 2012. Included in the 2013 results were $5.4 million, or $.12 per fully diluted common share, of non-recurring acquisition related expenses. On November 12, 2013, the Corporation acquired 100 percent of CFS Bancorp, Inc. ("CFS") in an all stock transaction as discussed in Note 3. BUSINESS COMBINATIONS, included within the Notes to Consolidated Condensed Financial Statements included as Item 8 of this Annual Report on Form 10-K. By contrast, 2012 results included a $9.1 million, or $0.21 per fully diluted common share after tax gain from the February 10, 2012, acquisition of certain assets and assumption of substantially all the deposits and certain other liabilities of SCB Bank, from the FDIC as the receiver for SCB Bank. Details of this transaction are included in Note 2. PURCHASE AND ASSUMPTION, included within the Notes to Consolidated Financial Statements included as Item 8 of this Annual Report on Form 10-K.

As of December 31, 2013, total assets equaled $5.4 billion, an increase of $1.1 billion from December 31, 2012. Loans and investments, the Corporation's primary earning assets, totaled $4.7 billion, up $934.4 million from the prior year's total of $3.8 billion. Investments increased by $221.2 million primarily due to liquidity provided by the CFS acquisition. Loans and loans held for sale increased $713.2 million. The Corporation acquired $603.3 million in loans and loans held for sale as a result of the CFS acquisition. Additional details of these changes are included within the "Earning Assets" section of Management's Discussion and Analysis of Financial Condition and Results of Operations included as Item 7 of this Annual Report on Form 10-K.

The Corporation's allowance for loan losses totaled $67.9 million as of year end 2013. The allowance provides 120.3 percent coverage of all non-accrual loans and 1.87 percent of total loans. Details of the Allowance for Loan Losses and non-performing loans are discussed within the "Loan Quality" and "Provision and Allowance for Loan Losses" sections of Management's Discussion and Analysis of Financial Condition and Results of Operations included as Item 7 of this Annual Report on Form 10-K.

Taxes, both current and deferred, increased in 2013 by $25.7 million. This change was primarily driven by a $30.7 million increase resulting from the CFS acquisition. Additional details related to the change are discussed within the "Income Tax" section of Management's Discussion and Analysis of Financial Condition and Results of Operations included as Item 7 of this Annual Report on Form 10-K.

The Corporation recognized increases in premises and equipment and cash surrender value of life insurance of $19.6 million and $36.6 million, respectively, as a result of the CFS acquisition. In addition, the excess of net tangible assets acquired was allocated to a core deposit intangible of $7.3 million and goodwill of $47.6 million. Additional details relating to the net tangible assets acquired are discussed in Note 3. BUSINESS COMBINATIONS, included within the Notes to Consolidated Condensed Financial Statements included as Item 8 of this Annual Report on Form 10-K.

Deposits increased $885.1 million from December 31, 2012. As part of the CFS acquisition, the Bank acquired deposits of $955.7 million. Additional details related to the change are discussed within the "Deposits and Borrowings" section of Management's Discussion and Analysis of Financial Condition and Results of Operations included as Item 7 of this Annual Report on Form 10-K.

On November 1, 2013, the Corporation completed the private issuance and sale to four institutional investors of an aggregate of $70 million of debt comprised of (a) 5.00 percent Fixed-to-Floating Rate Senior Notes due 2028 in the aggregate principal amount of $5 million (the "Senior Debt") and (b) 6.75 percent Fixed-to-Floating Rate Subordinated

Notes due 2028 in the aggregate principal amount of $65 million (the “Subordinated Debt”). The net proceeds of the placement were used to pay off the Corporation’s $55 million credit facility with Bank of America, N.A. which was scheduled to mature on February 15, 2015. Details of this transaction are included in Note 12. BORROWINGS, included within the Notes to Consolidated Financial Statements included as Item 8 of this Annual Report on Form 10-K.

In three separate transactions during 2013, the Corporation redeemed all 90,782.94 outstanding shares of its Senior Non-Cumulative Perpetual Preferred Stock, Series B (the "Series B Preferred Stock") held by the U.S. Department of the Treasury (the "Treasury"). The Series B Preferred Stock had been issued to the Treasury in September of 2011 as part of the Corporation's participation in the Small Business Lending Fund Program ("SBLF"). Additional details related to the Corporation's SBLF related Preferred Stock redemptions are discussed in Note 16. STOCKHOLDERS' EQUITY, included within the Notes to Consolidated Financial Statements included as Item 8 of this Annual Report on Form 10-K.

The Corporation was able to maintain all regulatory capital ratios in excess of the regulatory definition of “well-capitalized” as discussed in the “Capital” section of Management’s Discussion and Analysis of Financial Condition and Results of Operations included as Item 7 of this Annual Report on Form 10-K.

Net Interest Income

Net interest income is the primary source of the Corporation's earnings. Net interest margin is a function of net interest income and the level of average earning assets. The following table presents the Corporation's interest income, interest expense, and net interest income as a percent of average earning assets for the three-year period ending in 2014.

	Average Balance	Interest Income / Expense	Average Rate	Average Balance	Interest Income / Expense	Average Rate	Average Balance	Interest Income / Expense	Average Rate
(Dollars in Thousands)	2014			2013			2012		
Assets:									
Interest-bearing deposits	$53,231	$124	0.2 %	$74,964	$158	0.2 %	57,842	100	0.2 %
Federal reserve and federal home loan bank stock	42,142	2,124	5.0	33,620	1,488	4.4	32,819	1,408	4.3
Securities: (1)									
Taxable	763,450	19,882	2.6	617,524	15,214	2.5	670,973	17,027	2.5
Tax-Exempt (2)	396,435	22,127	5.6	282,584	16,660	5.9	251,724	15,675	6.2
Total securities	1,159,885	42,009	3.6	900,108	31,874	3.5	922,697	32,702	3.5
Loans held for sale	6,681	485	7.3	16,137	770	4.8	20,648	1,024	5.0
Loans: (3)									
Commercial	2,919,020	133,567	4.6	2,391,221	113,613	4.8	2,166,238	114,078	5.3
Real estate mortgage	429,384	19,812	4.6	277,520	12,375	4.5	293,384	13,848	4.7
Installment	361,484	18,175	5.0	308,233	15,994	5.2	324,553	17,795	5.5
Tax-Exempt (2)	13,511	504	3.7	15,444	605	3.9	14,993	739	4.9
Total loans	3,730,080	172,543	4.6	3,008,555	143,357	4.8	2,819,816	147,484	5.2
Total earning assets	4,985,338	216,800	4.3 %	4,017,247	176,877	4.4 %	3,833,174	181,694	4.7 %
Net unrealized gain on securities available for sale	8,921			4,521			16,116		
Allowance for loan losses	(67,969)			(68,806)			(71,038)		
Cash and due from banks	87,068			73,161			66,109		
Premises and equipment	75,202			57,228			51,692		
Other assets	482,794			372,060			349,943		
Total assets	$5,571,354			$4,455,411			$4,245,996		
Liabilities:									
Interest-bearing deposits:									
NOW accounts	$1,066,402	$1,110	0.1 %	$880,323	$941	0.1 %	$814,831	$1,007	0.1 %
Money market deposit accounts	776,712	1,572	0.2	603,012	1,287	0.2	501,537	1,370	0.3

Savings deposits	533,080	619	0.1	377,106	421	0.1	327,644	528	0.2
Certificates and other time deposits	1,042,539	8,377	0.8	807,764	7,404	0.9	935,713	11,895	1.3
Total interest-bearing deposits	3,418,733	11,678	0.3	2,668,205	10,053	0.4	2,579,725	14,800	0.6
Borrowings	492,128	10,164	2.1	400,580	6,516	1.6	411,915	8,813	2.1
Total interest-bearing liabilities	3,910,861	21,842	0.6	3,068,785	16,569	0.5	2,991,640	23,613	0.8
Noninterest-bearing deposits	945,222			797,435			683,295		
Other liabilities	39,976			48,936			35,564		
Total liabilities	4,896,059			3,915,156			3,710,499		
Stockholders' Equity	675,295			540,255			535,497		
Total Liabilities and Stockholders' Equity	$5,571,354	21,842	0.4	$4,455,411	16,569	0.4	$4,245,996	23,613	0.6
Net Interest Income		$194,958			$160,308			$158,081	
Net Interest Margin			3.9 %			4.0 %			4.1 %

(1) Average balance of securities is computed based on the average of the historical amortized cost balances without the effects of the fair value adjustment.

(2) Tax-exempt securities and loans are presented on a fully taxable equivalent basis, using a marginal tax rate of 35 percent for 2014, 2013 and 2012. These totals equal $7,921, $6,043 and $5,745,
respectively.

(3) Non-accruing loans have been included in the average balances.

In 2014, asset yields decreased 5 basis points on a fully taxable equivalent basis (FTE) and interest cost increased 3 basis points, resulting in an 8 basis points decrease in net interest margin compared to 2013. In 2013, average earning assets only included approximately six weeks of averages related to assets acquired from CFS; however, 2014 included an entire year of averages. Average earning assets increased $968,091,000 and were a result of larger loan and investment portfolios, which has positive volume variances of $33,894,000 and $9,393,000, respectively. In addition, a low interest rate environment produced a negative rate variance of $5,934,000 (FTE), resulting in a net increase of $32,772,000 (FTE) in net interest income.

In 2013, asset yields decreased 34 basis points on fully taxable equivalent basis (FTE) and interest cost decreased 21 basis points, resulting in a 13 basis point decrease in net interest margin compared to 2012. An increase in earnings assets, primarily due to a larger loan portfolio as a result of the CFS transaction, resulted in a positive volume variance of $10,087,000. In addition, a low interest rate environment produced a negative rate variance of $8,158,000 (FTE), resulting in a net increase of $1,929,000 in net interest income.

Average earning assets include the average balance of securities classified as available for sale, computed based on the average of the historical amortized cost balances without the effects of the fair value adjustment. In addition, annualized amounts are computed utilizing a 30/360 day basis.

Non-Interest Income

Non-Interest income increased $10.9 million, or 19.8 percent, in 2014 compared to 2013. The November 12, 2013 acquisition of CFS was the largest contributing factor to the year-over-year increase.

Significant increases realized during 2014 when compared to 2013 included service charge income, other customer fees (primarily electronic card interchange fees and investment brokerage fees) and other income, including gains on sale of other real estate owned, totaling $3.3 million, $3.8 million and $1.5 million, respectively. Additionally, gains on the sale of investment securities increased $3.1 million from 2013 to 2014. Additional details on investment securities can be found in Note 5. INVESTMENT SECURITIES, included within the Notes to Consolidated Condensed Financial Statements of this form 10-K. Finally, 2014 earnings on cash surrender value of life insurance increased $1.0 million from the previous year, primarily due to receipt of an $846,000 death benefit from Bank Owned Life Insurance during the period.

Partially offsetting the year-over-year increases was a $2.6 million decrease in net gains recognized on the sale of mortgage loans. Mortgage origination and refinance volumes decreased from 2013 levels as a result of interest rate and economic factors.

The November 7, 2014 Community acquisition resulted in $201,000 of non-interest income during the last seven weeks of 2014.

In 2013, non-interest income decreased $9.5 million, or 14.8 percent in comparison to 2012. The largest item contributing to the decrease was a gross purchase gain of $9.1 million recognized in 2012 from the purchase of certain assets and assumption of certain liabilities of SCB Bank. Details of this transaction are included within Note 2. PURCHASE AND ASSUMPTION of the Notes to Consolidated Financial Statements included as Item 8 of this Annual Report on Form 10-K.

Additionally, earnings on cash surrender value of life insurance decreased by $805,000 compared to 2012. This decrease was primarily driven by a death benefit of $576,000 received from Bank Owned Life Insurance during 2012. Finally, gains on the sale of mortgage loans, gains on the sale of investment securities and tax credit fund income declined by $3.1 million, $1.9 million and $1.0 million, respectively, in 2013 when compared to 2012.

Offsetting these declines were significant increases in gains on sale of OREO, insurance commissions, customer service charges, fiduciary activities, and investment service commissions of $3.0 million, $917,000, $813,000, $703,000 and $463,000, respectively, in 2013 when compared to 2012.

The November 12, 2013 CFS acquisition resulted in $1.2 million of non-interest income during the last seven weeks of 2013. Of this $1.2 million, the largest components were $581,000 of customer service charges and $325,000 of electronic interchange fees.

Non-Interest Expenses

Non-interest expenses increased $25.4 million, or 17.7 percent, in 2014 compared to 2013. As with non-interest income, the CFS acquisition was the most significant factor in the year-over-year increase.

In 2014, salaries and employee benefits increased $11.1 million, or 13.0 percent, over 2013 due to the addition of CFS employees since the acquisition. The Corporation also experienced a $3.5 million increase in net occupancy expense, as 20 banking center locations were added to the Bank's footprint as a result of the CFS acquisition. In addition to the non-interest expense increases associated with operating a larger organization, 2014 included $1.5 million of non-recurring expenses associated with the CFS acquisition.

Additionally, the Community acquisition resulted in $2.2 million of one-time expenses in 2014. Furthermore, Community added $646,000 of non-interest expense in the last seven weeks of 2014.

In 2013, non-interest expenses increased $6.1 million, or 4.5 percent, compared to 2012. Salaries and employee benefits increased by $6.0 million, with the largest factor being $2.5 million of non-recurring severance expenses related to the CFS acquisition. In addition, salaries and employee benefits increased by $2.1 million due to the addition of CFS employees since acquisition. Additionally, professional and other outside services were $2.1 million higher in 2013 than 2012 due primarily to expenses associated with the acquisition and integration of CFS.

The increases in salary and employee benefits and other expenses were offset by year over year declines in other real estate owned and credit-related expenses of $1.5 million and FDIC assessment expense of $647,000.

Overall, the CFS acquisition, resulted in $8.9 million of non-interest expense during 2013.

Income Tax Expense

Income tax expense in 2014 was $21,390,000 on pre-tax income of $81,552,000, or 26.2 percent. For the same period in 2013, income tax expense was $14,677,000 on pre-tax income of $59,207,000, or 24.8 percent. Additional details are discussed within the “INCOME TAXES” section of the Management’s Discussion and Analysis of Financial Condition and Results of Operations included as Item 7 of this Annual Report on Form 10-K and in Note 22. INCOME TAX of the Notes to Consolidated Financial Statements included as Item 8 of this Annual Report on Form 10-K.

CAPITAL

To be categorized as well capitalized, the Bank must maintain a minimum total capital to risk-weighted assets, Tier I capital to risk-weighted assets and Tier I capital to average assets of 10 percent, 6 percent and 5 percent, respectively. The Corporation’s regulatory capital exceeded the regulatory “well capitalized” standard at December 31, 2014. See additional information on the Corporation’s and Bank’s capital ratios in Note 18. REGULATORY CAPITAL, in the Notes to Consolidated Financial Statements included as Item 8 of this Annual Report on Form 10-K.

Tier I regulatory capital consists primarily of total stockholders’ equity and subordinated debentures issued to business trusts categorized as qualifying borrowings, less non-qualifying intangible assets and unrealized net securities gains or losses. The Corporation's Tier I capital to average assets ratio was 10.15 percent and 10.20 percent at December 31, 2014 and 2013, respectively.

At December 31, 2014, the Corporation had a Tier I risk-based capital ratio of 12.63 percent and total risk-based capital ratio of 15.34 percent, compared to 11.71 percent and 14.54 percent, respectively, at December 31, 2013. Regulatory capital guidelines require a Tier I risk-based capital ratio of at least 4 percent and a total risk-based capital ratio of at least 8 percent.

On September 22, 2011, the Corporation entered into a Securities Purchase Agreement with the Treasury, pursuant to which the Corporation issued 90,782.94 shares of the Corporation’s Senior Non-Cumulative Perpetual Preferred Stock, Series B (the “Series B Preferred Stock”), having a liquidation amount per share equal to $1,000, for a total purchase price of $90,782,940. The Purchase Agreement was entered into, and the Series B Preferred Stock was issued, pursuant to the SBLF program, a $30 billion fund established under the Small Business Jobs Act of 2010, that encourages lending to small businesses by providing capital to qualified community banks with assets of less than $10 billion.

On January 3, 2013, the Corporation redeemed 22,695.94 shares of the Series B Preferred Stock held by the Treasury at an aggregate redemption price of $22,695,940 plus accrued but unpaid dividends. Following the redemption, the Treasury held 68,087 shares of the Series B Preferred Stock representing a remaining liquidation amount of approximately $68 million.

On July 2, 2013, the Corporation redeemed an additional 34,044 shares of the Series B Preferred Stock held by the Treasury at an aggregate redemption price of $34,044,000 plus accrued but unpaid dividends. Following the redemption, the Treasury held 34,043 shares of the Series B Preferred Stock representing a remaining liquidation amount of approximately $34 million.

On November 12, 2013, the Corporation acquired 100 percent of CFS in an all stock transaction. Pursuant to the merger agreement, the shareholders of CFS received 0.65 percent of a share of the Corporation's common stock for each share of CFS Bancorp common stock held. The Corporation issued approximately 7.1 million shares of common stock, which was valued at approximately $135.7 million. This transaction resulted in a core deposit intangible of $7,313,000 and goodwill of $47,573,000.

On November 22, 2013, the Corporation redeemed the final 34,043 shares of the Series B Preferred Stock held by the Treasury at an aggregate redemption price of $34,043,000 plus accrued but unpaid dividends. There are no shares of the Corporation's Series B Preferred Stock currently outstanding.

On November 7, 2014, the Corporation acquired 100 percent of Community. Pursuant to the merger agreement, each outstanding share of common stock of Community was converted into the right to receive either (a) 4.0926 shares of First Merchants' common stock, plus cash in lieu of fractional shares; or (b) $85.94 in cash, based upon shareholder elections. The Corporation paid $14.2 million in cash and issued approximately 1.6 million shares of common stock, valued at approximately $35.0 million, for a total purchase price of approximately $49.2 million.

Management believes that all of the above capital ratios are meaningful measurements for evaluating the safety and soundness of the Corporation. Additionally, management believes the following table is meaningful when considering performance measures of the Corporation. The table below details and reconciles tangible earnings per share, return on tangible capital and tangible assets to traditional GAAP measures.

(Dollars in Thousands, Except Per Share Amounts)	December 31, 2014	December 31, 2013
Average goodwill	$191,033	$147,785
Average core deposit intangible (CDI)	13,323	8,367
Average deferred tax on CDI	(5,002)	(2,633)
Intangible adjustment	$199,354	$153,519
Average stockholders' equity (GAAP capital)	$675,295	$540,225
Average cumulative preferred stock	(125)	(125)
Average non-cumulative preferred stock issued under the small business lending fund		(47,412)
Intangible adjustment	(199,354)	(153,519)
Average tangible capital	$475,816	$339,169
Average assets	$5,571,354	$4,455,411
Intangible adjustment	(199,354)	(153,519)
Average tangible assets	$5,372,000	$4,301,892
Net Income available to common stockholders	$60,162	$42,150
CDI amortization, net of tax	1,395	892
Tangible net income (loss) available to common stockholders	$61,557	$43,042
Diluted earnings per share	$1.65	$1.41
Diluted tangible earnings per share	$1.68	$1.43
Return on average GAAP capital	8.91%	7.80%
Return on average tangible capital	12.94%	12.69%
Return on average assets	1.08%	0.95%
Return on average tangible assets	1.15%	1.00%

Return on average tangible capital is tangible net income available to common stockholders (annualized) expressed as a percentage of average tangible capital. Return on average tangible assets is tangible net income available to common stockholders (annualized) expressed as a percentage of average tangible assets.

LOAN QUALITY/PROVISION AND ALLOWANCE FOR LOAN LOSSES

The Corporation's primary lending focus is small business and middle market commercial, commercial real estate, residential real estate and consumer, which results in portfolio diversification. Commercial loans are individually underwritten and judgmentally risk rated. They are periodically monitored and prompt corrective actions are taken on deteriorating loans. Retail loans are typically underwritten with statistical decision-making tools and are managed throughout their life cycle on a portfolio basis.

Loan Quality

The quality and amount of non-performing loans may increase or decrease going forward as a result of acquisitions, organic portfolio growth, problem loan recognition and resolution through collections, sales or charge offs. The performance of any loan can be affected by external factors such as economic conditions, or internal factors specific to a particular borrower, such as the actions of a customer's management.

At December 31, 2014, non-performing loans totaled $50,781,000 and included $5,674,000 of non-accrual loans acquired in the Community transaction. The increase in non-performing loans due to the acquired non-accruals was offset by a $13,287,000 decrease in non-accruals in the existing portfolio, contributing to a $8,669,000 decrease in non-performing loans from December 31, 2013. Non-accrual loans totaled $48,789,000 at December 31, 2014. The Corporation’s coverage ratio of allowance for loan losses to non-accrual loans increased from 120.3 percent at December 31, 2013 to 131.1 percent at December 31, 2014. See additional information in the “Provision and Allowance for Loan Losses” section of Management’s Discussion and Analysis of Financial Condition and Results of Operations included as Item 7 of this Annual Report on Form 10-K.

Other real estate owned totaling $19,293,000 at December 31, 2014, declined $2,953,000 during the twelve month period despite the addition of $6,662,000 of real estate assets acquired in the Community acquisition. For other real estate owned, current appraisals are obtained to determine fair value as management continues to aggressively market these real estate assets.

Accruing loans delinquent 90 or more days at December 31, 2014 increased $3,313,000 to $4,663,000 from the December 31, 2013 balance of $1,350,000. Commercial and industrial loans 90+ days delinquent and accruing increased to $2,985,000 at December 31, 2014 from the December 31, 2013 balance of zero. Renegotiated loans decreased $1,056,000 as the amount of new troubled debt restructurings during the period was outpaced by the continued performance of troubled debt restructurings from prior periods.

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

A loan is deemed impaired when, based on current information or events, it is probable that all amounts due of principal and interest according to the contractual terms of the loan agreement will not be collected substantially within the contractual terms of the note. At December 31, 2014, commercial impaired loans totaled $116,223,000, including $17,027,000 in loans acquired in the Community transaction. At December 31, 2014, a specific allowance for losses was not deemed necessary for commercial impaired loans totaling $102,793,000 as there was no identified loss on these credits. An allowance of $2,769,000 was recorded for the remaining balance of these impaired loans totaling $13,430,000 and is included in the Corporation’s allowance for loan losses.

At December 31, 2014, non-performing assets, which includes non-accrual loans, renegotiated loans, and other real estate owned, plus loans 90-days delinquent, totaled $74,737,000; a decrease of $8,309,000 from December 31, 2013 as noted in the table below.

(Dollars in Thousands)	December 31, 2014	December 31, 2013
Non-Performing Assets:		
Non-accrual loans	$48,789	$56,402
Renegotiated loans	1,992	3,048
Non-performing loans (NPL)	50,781	59,450
Other real estate owned	19,293	22,246
Non-performing assets (NPA)	70,074	81,696
90+ days delinquent and still accruing	4,663	1,350
NPAs & 90+ days delinquent	$74,737	$83,046
Impaired loans (includes substandard, doubtful and loss)	$116,223	$119,755

The composition of non-performing assets and 90-day delinquent loans is reflected in the following table.

(Dollars in Thousands)	December 31, 2014	December 31, 2013
Non Performing Assets and 90+ Days Delinquent:		
Commercial and industrial loans	$10,033	$9,317
Agricultural production financing and other loans to farmers	5,800	30
Real estate loans		
Construction	8,363	12,730
Commercial and farmland	30,400	43,229
Residential	17,079	15,340
Home equity	2,802	1,977
Individual's loans for household and other personal expenditures	260	259
Lease financing receivables, net of unearned income		

Other loans		164
Non performing assets plus 90+ days delinquent	$74,737	$83,046

Although the Corporation believes its underwriting and loan review procedures are appropriate for the various kinds of loans it makes, its results of operations and financial condition could be adversely affected in the event the quality of its loan portfolio declines. Deterioration in the economic environment including residential and commercial real estate values may result in increased levels of loan delinquencies and credit losses.

Commercial construction and land development loans were $207,221,000 at December 31, 2014, an increase of $30,139,000 from December 31, 2013. At December 31, 2014, construction and land development loans represent 5.3 percent of loans compared to 4.9 percent at December 31, 2013. Management continues to closely monitor this segment of the portfolio, as well as being selective with additional exposure to this industry.

PART II: ITEM 7. AND ITEM 7A. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

In 2014, total net charge offs were $6,466,000, a decrease of $1,678,000 from 2013 and $13,600,000 from 2012. The Corporation incurred four commercial loan charge offs of $1 million and greater in 2014 totaling $8,011,000. The largest charge offs, totaling $4,794,000, were incurred on a single commercial and agricultural loan relationship. Five recoveries of over $500,000, totaling $3,672,000, were recognized during the year. Commercial and farm real estate accounted for $3,820,000, or 59.1 percent of total net charge offs, compared to $3,935,000 and 48.3 percent in 2013. The 2014 commercial and farm real estate net charge offs included a single commercial real estate charge off totaling $2,038,000. At December 31, 2014, commercial and farm real estate loans accounted for 42.6 percent of total loans.

The table below represents loan loss experience for the years indicated.

(Dollars in Thousands)	2014		2013		2012	
Allowance for loan losses:						
Balance at January 1	$67,870		$69,366		$70,898	
Charge offs	17,382		18,134		27,272	
Recoveries	10,916		9,990		7,206	
Net charge offs	6,466		8,144		20,066	
Provision for loan losses	2,560		6,648		18,534	
Balance at December 31	$63,964		$67,870		$69,366	
Ratio of net charge offs during the period to average loans outstanding during the period	0.17	%	0.27	%	0.71	%
Ratio of allowance to non-accrual loans	131.10	%	120.30	%	129.90	%

The distribution of the net charge offs for the years indicated is provided in the following table.

(Dollars in Thousands)	December 31, 2014		December 31, 2013		December 31, 2012	
Net charge offs:						
Commercial and industrial loans	$865		$1,932		$6,133	
Agricultural production financing and other farm loans	970		(317	)	(42	)
Real estate loans						
Construction	(509	)	6		271	
Commercial and farmland	3,820		3,935		8,399	
Residential	633		1,347		3,052	
Home equity	453		1,247		1,310	
Individuals loans for household and other personal expenditures	280		67		435	
Lease financing receivables, net of unearned income	(22	)	11		32	
Other loans	(24	)	(84	)	476	
Total net charge offs	$6,466		$8,144		$20,066	

Provision and Allowance for Loan Losses

The allowance for loan losses is maintained through the provision for loan losses, which is a charge against earnings. The provision for loan losses in 2014, 2013 and 2012 were $2,560,000, $6,648,000 and $18,534,000, respectively, showing significant year over year declines.

The amount actually provided for loan losses in any period may be greater than or less than net loan losses, based on management's judgment as to the appropriate level of the allowance for loan losses. The determination of the provision amount and the adequacy of the allowance in any period is based on management's continuing review and evaluation of the loan portfolio, including and internally administered loan "watch" list and an independent review. The evaluation takes into consideration identified credit problems, managements judgment as to the impact of current economic conditions on the portfolio and the possibility of losses inherent in the loan portfolio that are not specifically identified.
See the "CRITICAL ACCOUNTING POLICIES" section of Management's Discussion and Analysis of Financial Condition and Results of Operations included as Item 7 of this Annual Report on Form 10-K.

Management believes that the allowance for loan losses is adequate to cover probable incurred losses inherent in the loan portfolio at December 31, 2014. The process for determining the adequacy of the allowance for loan losses is critical to the Corporation's financial results. It requires management to make difficult, subjective and complex judgments to estimate the effect of uncertain matters. The allowance for loan losses considers current factors, including economic conditions and ongoing internal and external examination processes and will increase or decrease as deemed necessary to ensure the allowance remains adequate. In addition, the allowance as a percentage of charge offs and nonperforming loans will change at different points in time based on credit performance, loan mix and collateral values. Management continually evaluates the commercial loan portfolio by including consideration of specific borrower cash flow analysis and estimated collateral values, types and amounts on non-performing loans, past and anticipated loan loss experience, changes in the composition of the loan portfolio, and the current condition and amount of loans outstanding.

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

At December 31, 2014, the allowance for loan losses was $63,964,000 a decrease of $3,906,000 from December 31, 2013. As a percent of loans, the allowance decreased to 1.6 percent at December 31, 2014 from 1.9 percent at December 31, 2013. The decrease in the ratio of allowance to loans was due in part to a $141,321,000 net increase in loans resulting primarily from the acquisition of Community. During 2014, the specific reserves against impaired loans increased by $1,186,000, and the allowance decreased by $5,092,000 in the ASC 450, Contingencies, allocation for loans not deemed impaired. Not included in the allowance for loan losses is the remaining fair value discount on acquired loans of $39,986,000 and $46,112,000 as of December 31, 2014 and 2013, respectively.

Loans are generally secured by specific items of collateral, including real property and business assets. Allowable methods for determining the amount of impairment include estimating fair value using the fair value of the collateral for collateral dependent loans. If the impaired loan is identified as collateral dependent, then the fair value method of measuring the amount of impairment is utilized. This method requires obtaining a current independent appraisal of the collateral and applying a discount factor to the value. The fair value of real estate is generally determined based on appraisals by qualified licensed appraisers. The appraisers typically determine the value of the real estate by utilizing an income or market valuation approach. Updated “as is” or “liquidation value” appraisals are obtained as individual circumstances and or market conditions warrant. Partially charged off loans measured for impairment based on their collateral value are generally not returned to performing status subsequent to receiving updated appraisals or restructure of the loan. If an appraisal is not available, the fair value may be determined by using a cash flow analysis. Fair value on other collateral such as business assets is typically ascertained by assessing, either singularly or some combination of, asset appraisals, accounts receivable aging reports, inventory listings and or customer financial statements. Both appraised values and values based on borrower’s financial information are discounted as considered appropriate based on age and quality of the information and current market conditions.

Loans deemed impaired according to guidance set forth in ASC 310 are evaluated during problem loan meetings held within each reporting period by a special assets management team. Loan collateral and customer financial information are reviewed and the level of impairment is assessed to determine appropriate and accurate reserve and or charge off amounts. Loans or portions of loans are charged off when they are considered uncollectible and of such little value that their continuance as an asset is not warranted. It is the Corporation’s policy to recognize losses promptly to prevent overstatement of assets, earnings and capital.

The following table summarizes loan loss reserves by loan segment for the periods ended December 31, 2014 and 2013.

	December 31, 2014					
(Dollars in Thousands)	Commercial	Commercial Real Estate	Consumer	Residential	Finance Leases	Total
Allowance Balances:						
Individually evaluated for impairment	$1,455	$470		$194		$2,119
Collectively evaluated for impairment	27,369	18,207	$2,658	12,958	$3	61,195
		650				650

Loans acquired with deteriorated credit quality						
Total allowance for loan losses	$28,824	$19,327	$2,658	$13,152	$3	$63,964

	December 31, 2013					
	Commercial	Commercial Real Estate	Consumer	Residential	Finance Leases	Total
Allowance Balances:						
Individually evaluated for impairment	$585	$763		$6		$1,354
Collectively evaluated for impairment	26,493	22,208	$2,515	15,071		66,287
Loans acquired with deteriorated credit quality	98	131				229
Total allowance for loan losses	$27,176	$23,102	$2,515	$15,077		$67,870

The historical loss allocation for loans not deemed impaired according to ASC 310 is the product of the volume of loans within the non-impaired criticized and non-criticized risk grade classifications, each segmented by call code, and the historical loss factor for each respective classification and call code segment. The historical loss factors are based upon actual loss experience within each risk and call code classification. The historical look back period for non-criticized loans is the most recent rolling-four-quarter average and aligns with the look back period for non-impaired criticized loans. Each of the rolling-four-quarter periods used to obtain the average, includes all charge offs for the previous twelve-month period; therefore, the historical look back period goes back seven quarters. The resulting allocation is more reflective of current conditions. Criticized loans are grouped based on the risk grade assigned to the loan. Loans with a special mention grade are assigned a loss factor and loans with a classified grade, but not impaired, are assigned a separate loss factor. The loss factor computation for this allocation includes a segmented historical loss migration analysis of non-impaired loans, by risk grade, to charge off. The decrease in the allowance as a percent of originated loans reflected the impact of the stabilizing economic environment on the Corporation’s loan portfolio, resulting in improved credit quality and fewer charge offs. Given the continued credit improvement and the resulting decrease in net charge offs, the historical loss component adjusted downward in 2014.

In addition to the specific reserves and historical loss components of the allowance, consideration is given to various environmental factors to help ensure that losses inherent in the portfolio are reflected in the allowance for loan losses. The environmental component adjusts the historical loss allocations for commercial and consumer loans to reflect relevant current conditions that, in management's opinion, have an impact on loss recognition. Environmental factors that management reviews in the analysis include: National and local economic trends and conditions; trends in growth in the loan portfolio and growth in higher risk areas; levels of, and trends in, delinquencies and non-accruals; experience and depth of lending management and staff; adequacy of, and adherence to, lending policies and procedures including those for underwriting; industry concentrations of credit; and adequacy of risk identification systems and controls through the internal loan review and internal audit processes. Each environmental factor receives an individual qualitative allocation that, in management's opinion, reflects losses inherent in the portfolio that are not reflected in the historical loss components of the allowance. As the economic environment has seen improvement during recent periods, management believes losses inherent in the portfolio may not be immediately apparent for specific identification. At December 31, 2014, the allocation related to environmental considerations totaled $49,223,000, or 1.5 percent of originated loans compared to $48,210,000 or 1.6 percent of originated loans at December 31, 2013.

The Corporation's primary market areas for lending are central Indiana, northwestern Indiana, northeastern Illinois, and central Ohio. When evaluating the adequacy of the allowance, consideration is given to this regional geographic concentration and the closely associated effect changing economic conditions have on the Corporation's customers. In management's opinion, the allowance for loan losses at December 31, 2014 is reflective of both the banking environment within the Corporation's footprint and the Corporation's recent loan and loss trends.

GOODWILL

Goodwill is reviewed annually for impairment. The Corporation completed its most recent annual goodwill impairment test as of October 1, 2014 and concluded, based on current events and circumstances, goodwill is not impaired. On November 7, 2014, the Corporation recorded approximately $13,776,000 of goodwill associated with the Community acquisition. Additionally, on November 12, 2013, the Corporation recorded approximately $47,573,000 of goodwill associated with the acquisition of CFS.

LIQUIDITY

Liquidity management is the process by which the Corporation ensures that adequate liquid funds are available for the holding company and its subsidiaries. These funds are necessary in order to meet financial commitments on a timely basis. These commitments include withdrawals by depositors, funding credit obligations to borrowers, paying dividends to stockholders, paying operating expenses, funding capital expenditures, and maintaining deposit reserve requirements. Liquidity is monitored and closely managed by the asset/liability committee.

The Corporation's liquidity is dependent upon the receipt of dividends from the Bank, which are subject to certain regulatory limitations and access to other funding sources. Liquidity of the Bank is derived primarily from core deposit growth, principal payments received on loans, the sale and maturity of investment securities, net cash provided by operating activities, and access to other funding sources.

The principal source of asset-funded liquidity is investment securities classified as available for sale, the market values of which totaled$549,543,000 at December 31, 2014, an increase of $13,342,000, or 2.5 percent, from December 31, 2013. Securities classified as held to maturity that are maturing within a short period of time can also be a source of liquidity. Securities classified as held to maturity and that are maturing in one year or less totaled $6,258,000 at December 31, 2014. In addition, other types of assets such as cash and interest-bearing deposits with other banks, federal funds sold and loans maturing within one year are sources of liquidity.

The most stable source of liability-funded liquidity for both the long-term and short-term is deposit growth and retention in the core deposit base. Federal funds purchased and securities sold under agreements to repurchase are also considered a source of liquidity. In addition, Federal Home Loan Bank ("FHLB") advances are utilized as a funding source. At December 31, 2014, total borrowings from the FHLB were $145,264,000. The Bank has pledged certain mortgage loans and investments to the FHLB. The total available remaining borrowing capacity from the FHLB at December 31, 2014 was $399,188,000.

On November 1, 2013, the Corporation completed the private issuance and sale to four institutional investors of an aggregate of $70 million of debt comprised of (a) 5.00 percent Fixed-to-Floating Rate Senior Notes due 2028 in the aggregate principal amount of $5 million (the “Senior Debt”) and (b) 6.75 percent Fixed-to-Floating Rate Subordinated Notes due 2028 in the aggregate principal amount of $65 million (the “Subordinated Debt”). The Senior Debt agreement contains certain customary representations and warranties and financial and negative covenants. As of December 31, 2014, the Corporation was in compliance with these covenants. The net proceeds of the placement were used to pay off the Corporation’s $55 million credit facility with Bank of America, N.A. which was scheduled to mature on February 15, 2015.

Additionally, on April 11, 2014, the Corporation entered into a line of credit agreement with U.S. Bank, N.A. with a maximum borrowing capacity of $20 million. As of December 31, 2014, there was no outstanding balance on the line of credit. Interest is payable quarterly based on one-month LIBOR plus 2.00 percent. The line of credit has a quarterly facility fee of 0.25 percent on the unused balance. The maturity date for the line of credit is April 10, 2015. The line of credit agreement contains certain customary representations and warranties and financial and negative covenants. As of December 31, 2014, the Corporation was in compliance with these covenants.

For further details related to the Corporation's borrowings, see Note 12. BORROWINGS, in the Notes to Consolidated Financial Statements included as Item 8 of this Annual Report on Form 10-K.

In the normal course of business, the Bank is a party to a number of other off-balance sheet activities that contain credit, market and operational risk that are not reflected in whole or in part in the consolidated financial statements. Such activities include: traditional off-balance sheet credit-related financial instruments, commitments under operating leases and long-term debt.

The Bank provides customers with off-balance sheet credit support through loan commitments and standby letters of credit. Summarized credit-related financial instruments at December 31, 2014 are as follows:

(Dollars in Thousands)	December 31, 2014
Amounts of Commitments:	
Loan commitments to extend credit	$1,617,552
Standby letters of credit	52,655
	$1,670,207

Since many of the commitments are expected to expire unused or be only partially used, the total amount of unused commitments in the preceding table does not necessarily represent future cash requirements.

In addition to owned banking facilities, the Corporation has entered into a number of long-term leasing arrangements to support ongoing activities. The required payments under such commitments and borrowings at December 31, 2014 are as follows:

(Dollars in Thousands)	2015	2016	2017	2018	2019	2020 and after	Total
Operating leases	$2,778	$2,207	$1,514	$844	$537	$2,724	$10,604
Federal funds purchased	15,381						15,381
Securities sold under repurchase agreements	124,539						124,539
Federal Home Loan Bank advances	30,780	41,225	15,018	25,637	12,503	20,101	145,264
Subordinated debentures and term loans	108					126,702	126,810
Total	$173,586	$43,432	$16,532	$26,481	$13,040	$149,527	$422,598

INTEREST SENSITIVITY AND DISCLOSURES ABOUT MARKET RISK

Asset and liability management has been an important factor in the Corporation's ability to record consistent earnings growth through periods of interest rate volatility and product deregulation. Management and the Board of Directors monitor the Corporation's liquidity and interest sensitivity positions at regular meetings to review how changes in interest rates may affect earnings. Decisions regarding investment and the pricing of loan and deposit products are made after analysis of reports designed to measure liquidity, rate sensitivity, the Corporation’s exposure to changes in net interest income given various rate scenarios and the economic and competitive environments.

It is the objective of the Corporation to monitor and manage risk exposure to net interest income caused by changes in interest rates. It is the goal of the Corporation’s asset and liability management function to provide optimum and stable net interest income. To accomplish this, management uses two asset liability tools. GAP/Interest rate sensitivity reports and net interest income simulation modeling are constructed, presented and monitored quarterly. Management believes that the Corporation's liquidity and interest sensitivity position at December 31, 2014, remained adequate to meet the Corporation’s primary goal of achieving optimum interest margins while avoiding undue interest rate risk.

The following table presents the Corporation’s interest rate sensitivity analysis as of December 31, 2014.

	December 31, 2014				
(Dollars in Thousands)	1-180 Days	181-365 Days	1-5 Years	Beyond 5 Years	Total
Rate-Sensitive Assets:					
Interest-bearing deposits	$47,520				$47,520
Investment securities	79,709	$86,260	$392,530	$622,132	1,180,631
Loans	2,102,140	364,716	1,004,666	453,343	3,924,865
Federal Reserve and Federal Home Loan Bank stock			41,353		41,353
Total rate-sensitive assets	$2,229,369	$450,976	$1,438,549	$1,075,475	$5,194,369
Rate-Sensitive Liabilities:					
Interest-bearing deposits	$2,708,756	$187,611	$478,987	$194,481	$3,569,835
Federal funds purchased	15,381				15,381
Securities sold under repurchase agreements	124,539				124,539
Federal Home Loan Bank advances	36,328	27,052	69,260	12,624	145,264
Subordinated debentures and term loans	56,702			70,108	126,810
Total rate-sensitive liabilities	$2,941,706	$214,663	$548,247	$277,213	$3,981,829
Interest rate sensitivity gap by period	$(712,337)	$236,313	$890,302	$798,262	
Cumulative rate sensitivity gap	$(712,337)	$(476,024)	$414,278	$1,212,540	
Cumulative rate sensitivity gap ratio					
at December 31, 2014	75.8 %	84.9 %	111.2 %	130.5 %	
at December 31, 2013	104.6 %	106.4 %	113.0 %	124.5 %	

The Corporation had a cumulative positive gap of $476,024,000 in the one-year horizon at December 31, 2014 or 8.17 percent of total assets.

The Corporation places its greatest credence in net interest income simulation modeling. The above GAP/Interest rate sensitivity report is believed by the Corporation's management to have two major shortfalls. The GAP/Interest rate sensitivity report fails to precisely gauge how often an interest rate sensitive product reprices, nor is it able to measure the magnitude of potential future rate movements.

Net interest income simulation modeling, or earnings-at-risk, measures the sensitivity of net interest income to various interest rate movements. The Corporation's asset liability process monitors simulated net interest income under three separate interest rate scenarios; base, rising and falling. Estimated net interest income for each scenario is calculated over a twelve-month horizon. The immediate and parallel changes to the base case scenario used in the model are presented below. The interest rate scenarios are used for analytical purposes and do not necessarily represent management's view of future market movements. Rather, these are intended to provide a measure of the degree of volatility interest rate movements may introduce into the earnings of the Corporation.

The base scenario is highly dependent on numerous assumptions embedded in the model, including assumptions related to future interest rates. While the base sensitivity analysis incorporates management's best estimate of interest rate and balance sheet dynamics under various market rate movements, the actual behavior and resulting earnings impact will likely differ from that projected. For certain assets, the base simulation model captures the expected prepayment behavior under changing interest rate environments. Assumptions and methodologies regarding the interest rate or balance behavior of indeterminate maturity products, such as savings, money market, NOW and demand deposits, reflect management's best estimate of expected future behavior.

The comparative rising 200 basis points and falling 100 basis points scenarios below, as of December 31, 2014, assume further interest rate changes in addition to the base simulation discussed above. These changes are immediate and parallel changes to the base case scenario. In the current rate environment, many driver rates are at or near historical lows, thus total rate movements (beginning point minus ending point) to each of the various driver rates utilized by management have the following results:

	At December 31, 2014	
	RISING	FALLING
Driver Rates	(200 Basis Points)	(100 Basis Points)
Prime	200	0
Federal Funds	200	0
One-Year CMT	200	(15)
Three-Year CMT	200	(83)
Five-Year CMT	200	(100)
CD's	200	(23)
FHLB	200	(43)

Results for the base, rising 200 basis points, and falling 100 basis points interest rate scenarios are listed below based upon the Corporation's rate sensitive assets and liabilities at December 31, 2014. The net interest income shown represents cumulative net interest income over a twelve-month time horizon. Balance sheet assumptions used for the base scenario are the same for the rising and falling simulations.

	At December 31, 2014		
		RISING	FALLING
(Dollars in Thousands)	Base	(200 Basis Points)	(100 Basis Points)
Net Interest Income	$180,175	$192,164	$175,118
Variance from Base		$11,989	$(5,057)
Percent of Change from Base		6.65%	(2.81)%

The comparative rising 200 basis points and falling 100 basis points scenarios below, as of December 31, 2013, assume further interest rate changes in addition to the base simulation discussed above. These changes are immediate and parallel changes to the base case scenario. In addition, total rate movements (beginning point minus ending point) to each of the various driver rates utilized by management in the base simulation are as follows:

	At December 31, 2013	
	RISING	FALLING
Driver Rates	(200 Basis Points)	(100 Basis Points)
Prime	200	0
Federal Funds	200	0
One-Year CMT	200	(5)
Three-Year CMT	200	(50)
Five-Year CMT	200	(100)
CD's	200	(20)
FHLB	200	(33)

Results for the base, rising 200 basis points, and falling 100 basis points interest rate scenarios are listed below. The net interest income shown represents cumulative net interest income over a twelve-month time horizon. Balance sheet assumptions used for the base scenario are the same for the rising and falling simulations.

	At December 31, 2013		
		RISING	FALLING
(Dollars in Thousands)	Base	(200 Basis Points)	(100 Basis Points)
Net Interest Income	$179,646	$190,736	$175,238
Variance from Base		$11,090	$(4,408)
Percent of Change from Base		6.17%	(2.45)%

EARNING ASSETS

The following table presents the earning asset mix as of December 31, 2014, and 2013. Earnings assets increased by $374,226,000. Loans and loans held for sale and investment securities increased by $294,360,000 and $85,052,000, respectively. The four largest loan segments that experienced increases were commercial and industrial, commercial and farmland, home equity and residential. A slight decrease was noted in agricultural production financing and other loans to farmers. The two most significant earning assets acquire in the Community transaction were loans of $145,064,000 and investment securities available for sale of $76,807,000.

(Dollars in Thousands)	December 31, 2014	December 31, 2013
Interest-bearing time deposits	$47,520	$55,069
Investment securities available for sale	549,543	536,201
Investment securities held to maturity	631,088	559,378
Mortgage loans held for sale	7,235	5,331
Loans	3,924,865	3,632,409
Federal Reserve and Federal Home Loan Bank stock	41,353	38,990
	$5,201,604	$4,827,378

DEPOSITS AND BORROWINGS

The table below reflects the level of deposits and borrowed funds (federal funds purchased, repurchase agreements; FHLB advances; subordinated debentures and term loans) based on year-end levels at December 31, 2014 and 2013.

(Dollars in Thousands)	December 31, 2014	December 31, 2013
Deposits	$4,640,694	$4,231,468
Federal funds purchased	15,381	125,645
Securities sold under repurchase agreements	124,539	148,672
Federal Home Loan Bank advances	145,264	122,140
Subordinated debentures and term loans	126,810	126,807
	$5,052,688	$4,754,732

The Corporation has leveraged its capital position with FHLB advances, as well as repurchase agreements, which are pledged against acquired investment securities as collateral for the borrowings. Further discussion regarding FHLB advances is included in Management’s Discussion and Analysis of Financial Condition and Results of Operations under the heading “LIQUIDITY”. Additionally, the interest rate risk is included as part of the Corporation’s interest simulation discussed in Management’s Discussion and Analysis of Financial Condition and Results of Operations included as Item 7 of this Annual Report on Form 10-K under the heading “INTEREST SENSITIVITY AND DISCLOSURES ABOUT MARKET RISK”.

INCOME TAXES

Income tax expense totaled $21,390,000 for 2014 compared to $14,677,000 for 2013. The Corporation's federal statutory income tax rate is 35 percent and its state tax rate varies from 0 to 9.5 percent depending on the state in which the subsidiary company is domiciled. The Corporation's effective tax rate is lower than the blended effective statutory federal and state rates primarily due to the Corporation's income on tax-exempt securities and loans, income generated by the subsidiaries domiciled in a state with no state or local income tax, income tax credits generated from investments in affordable housing projects, tax-exempt earnings from bank-owned life insurance contracts and reduced state taxes, resulting from the effect of state income apportionment. The reconciliation of federal statutory to actual tax expense is shown in Note 22, INCOME TAX, in the Notes to Consolidated Financial Statements included as Item 8 of this Annual Report on Form 10-K.

The Corporation's tax asset, deferred and receivable decreased from $56,614,000 at December 31, 2013 to $41,960,000 at December 31, 2014. In addition, the Corporation's net deferred tax asset has decreased from $55,785,000 at December 31, 2013 to $39,392,000 at December 31, 2014. The $16,393,000 decrease in the Corporation's net deferred tax asset was due to a combination of a decrease in deferred tax assets and an increase in deferred tax liabilities. The largest deferred tax asset decreases were associated with accounting for loans, other than temporary impairment on securities, and other real estate owned in the amounts of $3,669,000, $3,261,000 and $1,988,000, respectively. Partially offsetting these deferred tax asset decreases was the $2,180,000 net change in the shift of the accounting for pensions and other employee benefits from a deferred tax liability to a deferred tax asset. Finally, the largest deferred tax liability increase of $7,742,000 resulted from the accounting for unrealized gains on available for sale securities.

The Corporation has recorded a valuation allowance of $17,568,000 related to deferred state taxes as it does not anticipate having future state taxable income sufficient to fully utilize the deferred state tax asset. This is primarily due to the Corporation's current tax structure as noted above.

INFLATION

Changing prices of goods, services and capital affect the financial position of every business enterprise. The level of market interest rates and the price of funds loaned or borrowed fluctuate due to changes in the rate of inflation and various other factors, including government monetary policy.

Fluctuating interest rates affect the Corporation's net interest income and loan volume. As the inflation rate increases, the purchasing power of the dollar decreases. Those holding fixed-rate monetary assets incur a loss, while those holding fixed-rate monetary liabilities enjoy a gain. The nature of a financial holding company's operations is such that there will generally be an excess of monetary assets over monetary liabilities, and, thus, a financial holding company will tend to suffer from an increase in the rate of inflation and benefit from a decrease.

OTHER

The Securities and Exchange Commission maintains a website that contains reports, proxy and information statements and other information regarding registrants that file electronically with the Commission, including the Corporation, and that address is www.sec.gov.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

The quantitative and qualitative disclosures about market risk information are presented in the "INTEREST SENSITIVITY AND DISCLOSURES ABOUT MARKET RISK" section of Management's Discussion and Analysis of Financial Condition and Results of Operations included as Item 7 of this Annual Report on Form 10-K.

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PART II: ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Report of Independent Registered Public Accounting Firm

Audit Committee, Board of Directors and Stockholders
First Merchants Corporation
Muncie, Indiana

We have audited the accompanying consolidated balance sheets of First Merchants Corporation (Corporation) as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2014. The Corporation's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. Our audits included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of First Merchants Corporation as of December 31, 2014 and 2013, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2014, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), First Merchants Corporation's internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control-Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated February 27, 2015, expressed an unqualified opinion on the effectiveness of the Corporation's internal control over financial reporting.

BKD, LLP
Indianapolis, Indiana
February 27, 2015

PART II: ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands, Except Share Data)	December 31, 2014	December 31, 2013
ASSETS		
Cash and cash equivalents	$118,616	$109,434
Interest-bearing time deposits	47,520	55,069
Investment securities available for sale	549,543	536,201
Investment securities held to maturity (fair value of $647,723 and $560,847)	631,088	559,378
Loans held for sale	7,235	5,331
Loans	3,924,865	3,632,409
Less: Allowance for loan losses	(63,964)	(67,870)
Net loans	3,860,901	3,564,539
Premises and equipment	77,691	74,454
Federal Reserve and Federal Home Loan Bank stock	41,353	38,990
Interest receivable	19,984	18,672
Core deposit intangibles	16,031	13,818
Goodwill	202,724	188,948
Cash surrender value of life insurance	169,424	164,571
Other real estate owned	19,293	22,246
Tax asset, deferred and receivable	41,960	56,614
Other assets	20,764	28,997
TOTAL ASSETS	$5,824,127	$5,437,262
LIABILITIES		
Deposits:		
Noninterest-bearing	$1,070,859	$930,772
Interest-bearing	3,569,835	3,300,696
Total Deposits	4,640,694	4,231,468
Borrowings:		
Federal funds purchased	15,381	125,645
Securities sold under repurchase agreements	124,539	148,672
Federal Home Loan Bank advances	145,264	122,140
Subordinated debentures and term loans	126,810	126,807
Total Borrowings	411,994	523,264
Interest payable	3,201	1,771
Other liabilities	41,411	45,836
Total Liabilities	5,097,300	4,802,339
COMMITMENTS AND CONTINGENT LIABILITIES		
STOCKHOLDERS' EQUITY		
Cumulative Preferred Stock, $1,000 par value, $1,000 liquidation value:		
Authorized - 600 shares		
Issued and outstanding - 125 shares	125	125
Common Stock, $.125 stated value:		
Authorized - 50,000,000 shares		
Issued and outstanding - 37,669,948 and 35,921,761 shares	4,709	4,490

Additional paid-in capital	431,220	393,783
Retained earnings	292,403	242,935
Accumulated other comprehensive loss	(1,630)	(6,410)
Total Stockholders' Equity	726,827	634,923
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$5,824,127	$5,437,262

See notes to consolidated financial statements.

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PART II: ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF INCOME

(Dollars in Thousands, Except Share Data)	December 31, 2014	December 31, 2013	December 31, 2012
INTEREST INCOME			
Loans receivable:			
Taxable	$172,039	$142,752	$146,745
Tax-exempt	327	393	480
Investment securities:			
Taxable	19,882	15,214	17,027
Tax-exempt	14,383	10,829	10,189
Deposits with financial institutions	124	158	100
Federal Reserve and Federal Home Loan Bank stock	2,124	1,488	1,408
Total Interest Income	208,879	170,834	175,949
INTEREST EXPENSE			
Deposits	11,678	10,053	14,800
Federal funds purchased	177	102	69
Securities sold under repurchase agreements	529	787	907
Federal Home Loan Bank advances	2,842	2,096	2,624
Subordinated debentures, revolving credit lines and term loans	6,616	3,531	5,213
Total Interest Expense	21,842	16,569	23,613
NET INTEREST INCOME	187,037	154,265	152,336
Provision for loan losses	2,560	6,648	18,534
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	184,477	147,617	133,802
OTHER INCOME			
Service charges on deposit accounts	15,747	12,400	11,587
Fiduciary activities	8,966	8,594	7,891
Other customer fees	15,699	11,866	11,233
Commission income	7,411	7,141	6,224
Earnings on cash surrender value of life insurance	3,659	2,613	3,418
Net gains and fees on sales of loans	4,899	7,511	10,628
Net realized gains on sales of available for sale securities	3,581	487	2,389
Gain on FDIC modified whole bank transaction			9,124
Other income	5,705	4,197	1,808
Total Other Income	65,667	54,809	64,302
OTHER EXPENSES			
Salaries and employee benefits	96,499	85,413	79,398
Net occupancy	13,831	10,291	10,186
Equipment	9,337	7,737	7,201
Marketing	3,464	2,236	2,158
Outside data processing fees	7,315	5,591	5,656
Printing and office supplies	1,565	1,340	1,169
Core deposit amortization	2,445	1,649	1,927
FDIC assessments	3,738	2,862	3,509

Other real estate owned and foreclosure expenses	8,043	6,661	8,178
Professional and other outside services	8,116	8,297	6,228
Other expenses	14,239	11,142	11,505
Total Other Expenses	168,592	143,219	137,115
INCOME BEFORE INCOME TAX	81,552	59,207	60,989
Income tax expense	21,390	14,677	15,867
NET INCOME	60,162	44,530	45,122
Preferred stock dividends		(2,380)	(4,539)
NET INCOME AVAILABLE TO COMMON STOCKHOLDERS	$60,162	$42,150	$40,583
NET INCOME AVAILABLE TO COMMON STOCKHOLDERS PER SHARE:			
Basic	$1.66	$1.42	$1.42
Diluted	$1.65	$1.41	$1.41

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in Thousands)	December 31, 2014	December 31, 2013	December 31, 2012
Net income	$60,162	$44,530	$45,122
Other comprehensive income (loss) net of tax:			
Unrealized holding gain (loss) on securities available for sale arising during the period, net of tax of $8,001, $6,841, and $654	14,860	(12,705)	1,214
Unrealized loss on securities transferred to held-to-maturity, net of tax of $0, $1,786, and $0		(3,316)	
Unrealized gain (loss) on securities available for sale for which a portion of an other than temporary impairment has been recognized in income, net of tax of $995, $767, and $56	1,847	1,425	(104)
Unrealized gain (loss) on cash flow hedges arising during the period, net of tax of $1,397, $831, and $514	(2,599)	1,543	(952)
Reclassification adjustment for net losses (gains) included in net income net of tax of $760, $157, and $759	(1,410)	291	(1,413)
Defined benefit pension plans, net of tax of $4,264, $6,382, and $346			
Net gain (loss) arising during period	(7,580)	10,704	(577)
Amortization of prior service cost	(338)	1,147	(65)
	4,780	(911)	(1,897)
Comprehensive income	$64,942	$43,619	$43,225

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

	Preferred		Common Stock					
(Dollars in Thousands, Except Share Data)	Shares	Amount	Shares	Amount	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balances, December 31, 2011	90,908	$90,908	28,559,707	$3,570	$254,874	$168,717	$ (3,602)	$514,467
Comprehensive income								
Net income						45,122		45,122
Other comprehensive income (loss), net of tax							(1,897)	(1,897)
Cash dividends on common stock ($.10 per share)						(2,903)		(2,903)
Cash dividends on preferred stock under small business lending fund						(4,539)		(4,539)
Share-based compensation			86,325	11	1,481			1,492
Stock issued under employee benefit plans			41,867	5	444			449
Stock issued under dividend reinvestment and stock purchase plan			15,709	2	200			202
Stock options exercised			10,500	1	77			78
Stock redeemed			(21,492)	(2)	(233)			(235)
Balances, December 31, 2012	90,908	$90,908	28,692,616	$3,587	$256,843	$206,397	$ (5,499)	$552,236
Comprehensive income								
Net income						44,530		44,530
Other comprehensive income (loss), net of tax							(911)	(911)
Cash dividends on common stock ($.18 per share)						(5,612)		(5,612)
Cash dividends on preferred stock under small business lending fund						(2,380)		(2,380)
Preferred stock redemption under small business lending fund	(90,783)	(90,783)						(90,783)
			7,079,457	885	134,757			135,642

Issuance of common stock related to acquisition								
Share-based compensation			116,978	15	1,758			1,773
Stock issued under employee benefit plans			33,451	4	475			479
Stock issued under dividend reinvestment and stock purchase plan			18,449	2	323			325
Stock options exercised			13,750	2	113			115
Stock redeemed			(32,940)	(5)	(486)			(491)
Balances, December 31, 2013	125	$125	35,921,761	$4,490	$393,783	$242,935	$ (6,410)	$634,923
Comprehensive income								
Net income						60,162		60,162
Other comprehensive income, net of tax							4,780	4,780
Cash dividends on common stock ($.29 per share)						(10,694)		(10,694)
Issuance of common stock related to acquisition			1,574,298	197	34,784			34,981
Share-based compensation			132,446	17	2,160			2,177
Stock issued under employee benefit plans			26,547	3	475			478
Stock issued under dividend reinvestment and stock purchase plan			24,556	3	520			523
Stock options exercised			41,249	5	559			564
Stock redeemed			(50,909)	(6)	(1,061)			(1,067)
Balances, December 31, 2014	125	$125	37,669,948	$4,709	$431,220	$292,403	$ (1,630)	$726,827

See notes to consolidated financial statements.

PART II: ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in Thousands)	December 31, 2014	December 31, 2013	December 31, 2012
Cash Flow From Operating Activities:			
Net income	$60,162	$44,530	$45,122
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	2,560	6,648	18,534
Depreciation and amortization	6,007	4,670	4,472
Change in deferred taxes	23,051	13,939	15,890
Share-based compensation	2,177	1,773	1,492
Tax benefit from stock options exercised	(60)		
Loans originated for sale	(222,892)	(280,693)	(393,565)
Proceeds from sales of Loans	220,988	297,851	389,129
Gain on acquisition			(9,124)
Gains on sales of securities available for sale	(3,581)	(487)	(2,389)
Change in interest receivable	(545)	(535)	1,884
Change in interest payable	1,332	(364)	(1,451)
Change in other receivable		110,032	
Other adjustments	(13,359)	(14,233)	275
Net cash provided by operating activities	$75,840	$183,131	$70,269
Cash Flows from Investing Activities:			
Net change in interest-bearing deposits	$24,075	$196,753	$14,408
Purchases of:			
Securities available for sale	(110,936)	(398,491)	(139,555)
Securities held to maturity	(142,988)	(11,145)	(4,262)
Proceeds from sales of securities available for sale	126,575	25,222	52,350
Proceeds from maturities of:			
Securities available for sale	68,339	93,273	112,141
Securities held to maturity	69,420	78,534	68,118
Change in Federal Reserve and Federal Home Loan Bank stock	(413)	(17)	246
Net change in loans	(170,109)	(142,861)	(123,036)
Net cash and cash equivalents received (paid) in acquisition	(10,084)	10,992	29,113
Proceeds from the sale of other real estate owned	14,241	12,346	4,428
Other adjustments	5,889	(2,768)	(2,065)
Net cash provided by (used in) investing activities	$(125,991)	$(138,162)	$11,886
Cash Flows from Financing Activities:			
Net change in :			
Demand and savings deposits	$53,062	$141,052	$228,725
Certificates of deposit and other time deposits	127,740	(211,399)	(142,906)
Borrowings	678,290	295,537	138,127
Repayment of borrowings	(789,563)	(163,838)	(271,005)
Cash dividends on common stock	(10,694)	(5,612)	(2,903)

Cash dividends on preferred stock		(2,380)	(4,539)
Stock issued under employee benefit plans	478	479	449
Stock issued under dividend reinvestment and stock purchase plans	523	325	202
Stock options exercised	504	115	78
Tax benefit from stock options exercised	60		