

CORNERSTONE BANCORP INC
 Form 4/A
 May 27, 2005

FORM 4

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
 Washington, D.C. 20549**

OMB APPROVAL

OMB Number: 3235-0287
 Expires: January 31, 2005
 Estimated average burden hours per response... 0.5

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. See Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
 FORGOTSON MERRILL J

2. Issuer Name and Ticker or Trading Symbol
 CORNERSTONE BANCORP INC
 [cbn]

5. Relationship of Reporting Person(s) to Issuer
 (Check all applicable)

(Last) (First) (Middle)
 7 BAYBERRY LANE
 (Street)

3. Date of Earliest Transaction
 (Month/Day/Year)
 01/05/2005

Director 10% Owner
 Officer (give title below) Other (specify below)
 Chairman and President

WESTPORT, CT 06880
 (City) (State) (Zip)

4. If Amendment, Date Original Filed(Month/Day/Year)
 01/07/2005

6. Individual or Joint/Group Filing(Check Applicable Line)
 Form filed by One Reporting Person
 Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
Common Stock	01/06/2005	01/05/2005	W	(A) 3,025 (1)	\$ 12.397	4,967.51 (2) I	By wife
Common Stock	01/06/2005	01/05/2005	W	(A) 6,050 (1)	\$ 16.012	11,017.51 (2) I	By wife
Common Stock						1,251.987 (3) I	By wife as custodian for child
Common Stock						60 I	By child
Common Stock						7,700 D	

Common Stock	10,330.99	I	By trust of which wife is trustee
-----------------	-----------	---	---

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

SEC 1474
(9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(e.g., puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Underlying Security (Instr. 3 and 4)
				Code	V (A) (D)	Date Exercisable Expiration Date	Title
Employee stock option - right to buy	\$ 13.636					05/29/2001 05/29/2011	Common Stock
Employee stock option - right to buy	\$ 14.545					01/02/2002 01/02/2012	Common Stock
Employee stock option - right to buy	\$ 20.3					01/02/2004 01/02/2014	Common Stock
Employee stock option - right to buy	\$ 12.397	01/06/2005	01/05/2005	W	3,025 <u>(1)</u>	05/21/1997 05/21/2007	Common Stock
Non-employee stock option - right to buy	\$ 16.012	01/06/2005	01/05/2005	W	6,050 <u>(1)</u>	12/31/1997 12/31/2007	Common Stock
Non-employee stock option - right to buy	\$ 12.397	01/06/2005	01/05/2005	M	3,025 <u>(1)</u>	05/21/1997 05/21/2007	Common Stock
Non-employee stock option - right to buy	\$ 16.012	01/06/2005	01/05/2005	M	6,050 <u>(1)</u>	12/31/1997 12/31/2007	Common Stock

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
FORGOTSON MERRILL J 7 BAYBERRY LANE WESTPORT, CT 06880	X		Chairman and President	

Signatures

Leigh A. Hardisty as power of attorney
05/27/2005

__Signature of Reporting Person Date

Explanation of Responses:

- * If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).
- ** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).
- (1) Contemporaneous transfer and exercise of non-qualified stock options to Janis Forgotson, wife of Merrill J. Forgotson, from the estate of her father, Norman H. Reader, who passed away 1/8/2004.
- (2) The reporting person received 33,414 shares of common stock as a result of participation in the Bancorp's plan for the reinvestment of dividends.
- (3) The reporting person received 21,536 shares of common stock as a result of participation in the Bancorp's plan for the reinvestment of dividends.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure. Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number.

lign:bottom;background-color:#cceeef;padding-left:2px;padding-top:2px;padding-bottom:2px;">

3.20

%

68,209

1,735

3.39

%

Loans (2)

1,084,184

34,974

4.31

%

1,010,767

33,242

4.40

%

Total earning assets

1,616,289

42,554

3.52

%

1,494,576

40,769

3.65

%

Cash and due from banks

36,675

34,626

Premises and equipment

27,997

28,006

Other assets
44,489

45,268

Allowance for loan losses
(13,990
)

(13,595
)

Total assets
\$
1,711,460

\$
1,588,881

Liabilities and Stockholders' Equity

Interest-bearing deposits

Demand deposits
\$
617,543

\$
518

0.11

Explanation of Responses:

%

\$
557,811

\$
517

0.12
%
Savings deposits
290,048

293

0.14
%
283,527

280

0.13
%
Time deposits
210,332

879

0.56
%
230,405

981

0.57
%
Securities sold under agreements to repurchase
116,443

Explanation of Responses:

43

0.05
%

94,026

33

0.05
%
FHLB advances
24,231

465

2.57
%

12,747

211

2.22
%
Fed Funds Purchased
190

1

—
%

22

—

0.50
%

Explanation of Responses:

Junior subordinated debt
20,620

390

2.53
%

20,620

385

2.49
%
Other debt
630

13

2.66
%

136

1

1.21
%
Total interest-bearing liabilities
1,280,037

2,602

0.27
%

1,199,294

2,408

Explanation of Responses:

0.27

%

Non interest-bearing demand deposits

242,421

224,396

Other liabilities

7,920

8,629

Stockholders' equity

181,082

156,562

Explanation of Responses:

Total liabilities & equity

\$

1,711,460

\$

1,588,881

Net interest income

\$

39,952

\$

38,361

Net interest spread

3.25
%

3.38
%
Impact of non-interest bearing funds

0.05
%

0.05
%
Net yield on interest- earning assets

3.30
%

3.43
%

(1) The tax-exempt income is not recorded on a tax equivalent basis.

Explanation of Responses:

(2) Nonaccrual loans and loans held for sale are included in the average balances. Balances are net of unaccreted discount related to loans acquired.

48

Changes in net interest income may also be analyzed by segregating the volume and rate components of interest income and interest expense. The following table summarizes the approximate relative contribution of changes in average volume and interest rates to changes in net interest income for the three and nine-months ended September 30, 2015, compared to the same periods in 2014 (in thousands):

	Three months ended September 30, 2015 compared to 2014 Increase / (Decrease)			Nine months ended September 30, 2015 compared to 2014 Increase / (Decrease)		
	Total Change	Volume (1)	Rate (1)	Total Change	Volume (1)	Rate (1)
Earning Assets:						
Interest-bearing deposits	\$33	\$60	\$(27)	\$34	\$48	\$(14)
Federal funds sold	—	—	—	—	—	—
Certificates of deposit investments	6	—	6	6	—	6
Investment securities:						
Taxable	151	515	(364)	(249)	146	(395)
Tax-exempt (2)	139	163	(24)	262	367	(105)
Loans (3)	807	3,218	(2,411)	1,732	2,771	(1,039)
Total interest income	1,136	3,956	(2,820)	1,785	3,332	(1,547)
Interest-Bearing Liabilities:						
Interest-bearing deposits						
Demand deposits	22	102	(80)	1	64	(63)
Savings deposits	6	6	—	13	3	10
Time deposits	31	(76)	107	(102)	(85)	(17)
Securities sold under agreements to repurchase	3	1	2	10	10	—
FHLB advances	77	73	4	254	216	38
Junior subordinated debt	2	—	2	5	—	5
Other debt	—	—	—	12	9	3
Total interest expense	142	106	36	194	218	(24)
Net interest income	\$994	\$3,850	\$(2,856)	\$1,591	\$3,114	\$(1,523)

(1) Changes attributable to the combined impact of volume and rate have been allocated proportionately to the change due to volume and the change due to rate.

(2) The tax-exempt income is not recorded on a tax-equivalent basis.

(3) Nonaccrual loans have been included in the average balances.

Net interest income increased \$1.6 million, or 4.1%, to \$40.0 million for the nine months ended September 30, 2015, from \$38.4 million for the same period in 2014. Net interest income increased primarily due to the growth in average earning assets. The net interest margin decreased primarily due to the decline in earning asset yields from the higher amount of interest bearing deposits or short-term liquidity from the acquisition and declines in loan and investment yields.

For the nine months ended September 30, 2015, average earning assets increased by \$121.7 million, or 8.1%, and average interest-bearing liabilities increased \$80.7 million or 6.7%, compared with average balances for the same period in 2014. The changes in average balances for these periods are shown below:

▲Average interest-bearing deposits held by the Company increased \$25.8 million or 71.9%.

▲Average federal funds sold decreased \$3,000 or 0.6%.

▲Average certificates of deposits investments increased \$933,000 or 100.0%

▲Average loans increased by \$73.4 million or 7.3%.

▲Average securities increased by \$21.5 million or 4.8%.

▲Average deposits increased by \$46.2 million or 4.3%.

▲Average securities sold under agreements to repurchase increased by \$22.4 million or 23.8%.

▲Average borrowings and other debt increased by \$12.1 million or 36.2%.

Net interest margin decreased to 3.30% for the first nine months of 2015 from 3.43% for the first nine months of 2014.

To compare the tax-exempt yields on interest-earning assets to taxable yields, the Company also computes non-GAAP net interest income on a tax equivalent basis (TE) where the interest earned on tax-exempt securities is adjusted to an amount comparable to interest subject to normal income taxes assuming a federal tax rate of 35% (referred to as the tax equivalent adjustment). The year-to-date net yield on interest-earning assets (TE) was 3.40% and 3.52% for the first nine months of 2015 and 2014, respectively. The TE adjustments to net interest income for the nine months ended September 30, 2015 and 2014 were \$1,188,000 and \$1,064,000, respectively.

Provision for Loan Losses

The provision for loan losses for the nine months ended September 30, 2015 and 2014 was \$889,000 and \$495,000, respectively. The increase in provision expense was due to greater net charge-offs and an increase in loan balances. Net charge-offs were \$343,000 for the nine months ended September 30, 2015 compared to \$39,000 during the same period in 2014. Nonperforming loans were \$3.5 million and \$4.8 million as of September 30, 2015 and 2014, respectively. For information on loan loss experience and nonperforming loans, see discussion under the “Nonperforming Loans” and “Loan Quality and Allowance for Loan Losses” sections below.

Other Income

An important source of the Company’s revenue is other income. The following table sets forth the major components of other income for the three and nine-months ended September 30, 2015 and 2014 (in thousands):

	Three months ended September 30,			Nine months ended September 30,		
	2015	2014	\$ Change	2015	2014	\$ Change
Trust revenues	\$795	\$813	\$(18)	\$2,575	\$2,594	\$(19)
Brokerage commissions	329	265	64	913	748	165
Insurance commissions	459	448	11	1,568	1,447	121
Service charges	1,536	1,412	124	4,003	3,909	94
Security gains, net	1	(20)	21	231	714	(483)
Mortgage banking revenue, net	172	185	(13)	549	441	108
ATM / debit card revenue	1,200	958	242	3,224	2,933	291
Other	517	341	176	1,282	1,087	195
Total other income	\$5,009	\$4,402	\$607	\$14,345	\$13,873	\$472

Following are explanations of the changes in these other income categories for the three months ended September 30, 2015 compared to the same period in 2014:

• Trust revenues decreased \$18,000 or 2.2% to \$795,000 from \$813,000. Trust assets, at market value, were \$815.0 million at September 30, 2015 compared to \$743.8 million at September 30, 2014.

• Revenues from brokerage increased \$64,000 or 24.2% to \$329,000 from \$265,000 due to an increase in the number of brokerage accounts from new business development efforts.

• Insurance commissions increased \$11,000 or 2.5% to \$459,000 from \$448,000 due to an increase in commissions received during 2015 compared to 2014.

•

Fees from service charges increased \$124,000 or 8.8% to \$1,536,000 from \$1,412,000 for the three months ended September 30, 2015 and 2014 primarily due to additional service charge income from the ONB branches acquired during the third quarter of 2015.

The sale of securities during the three months ended September 30, 2015 resulted in net securities gains of \$1,000 compared to losses of \$20,000 during the three months ended September 30, 2014.

Mortgage banking income decreased \$13,000 or 7.0% to \$172,000 from \$185,000. Loans sold balances were as follows:

\$14.7 million (representing 123 loans) for the three months ended of September 30, 2015

\$12.7 million (representing 103 loans) for the three months ended of September 30, 2014

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

Revenue from ATMs and debit cards increased \$242,000 or 25.3% to \$1,200,000 from \$958,000 due the addition of ONB branches and an increase in electronic transactions.

Other income increased \$176,000 or 51.6% to \$517,000 from \$341,000 due to the other income from the ONB branches acquired during the third quarter of 2015 and an increase in merchant card processing fees for the quarter.

Following are explanations of the changes in these other income categories for the nine months September 30, 2015 compared to the same period in 2014:

Trust revenues decreased \$19,000 or 0.7% to \$2,575,000 from \$2,594,000. Trust assets, at market value, were \$815.0 million at September 30, 2015 compared to \$743.8 million at September 30, 2014.

Revenues from brokerage increased \$165,000 or 22.1% to \$913,000 from \$748,000 due to an increase in the number of brokerage accounts from new business development efforts.

Insurance commissions increased \$121,000 or 8.4% to \$1,568,000 from \$1,447,000 due to an increase in contingency income received from carriers based on claims experience and an increase in commission and fee income received during 2015 compared to 2014.

Fees from service charges increased \$94,000 or 2.4% to \$4,003,000 from \$3,909,000 for the nine months ended September 30, 2015 and 2014 primarily due to an increase the additional income from the ONB branches acquired in the third quarter of 2015.

- The sale of securities during the nine months ended September 30, 2015 resulted in net securities gains of \$231,000 compared to \$714,000 during the nine months ended September 30, 2014.

Mortgage banking income increased \$108,000 or 24.5% to \$549,000 from \$441,000. Loans sold balances were as follows:

\$43.7 million (representing 348 loans) for the nine months ended of September 30, 2015

\$32.0 million (representing 264 loans) for the nine months months ended of September 30, 2014

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

Revenue from ATMs and debit cards increased \$291,000 or 9.9% to \$3,224,000 from \$2,933,000 due to the ONB Branches acquired in the third quarter of 2015 and an increase in electronic transactions and incentives received from VISA.

Explanation of Responses:

Other income increased \$195,000 or 17.9% to \$1,282,000 from \$1,087,000 due to income from the ONB branches acquired during the third quarter of 2015 and an increase in merchant card processing fees.

Other Expense

The major categories of other expense include salaries and employee benefits, occupancy and equipment expenses and other operating expenses associated with day-to-day operations. The following table sets forth the major components of other expense for the three and nine-months ended September 30, 2015 and 2014 (in thousands):

	Three months ended September 30,			Nine months ended September 30,		
	2015	2014	\$ Change	2015	2014	\$ Change
Salaries and employee benefits	\$6,522	\$6,216	\$306	\$18,875	\$18,323	\$552
Net occupancy and equipment expense	2,424	2,056	368	6,329	6,319	10
Net other real estate owned expense (income)	(1)	41	(42)	—	23	(23)
FDIC insurance	236	199	37	641	604	37
Amortization of intangible assets	155	162	(7)	466	487	(21)
Stationery and supplies	180	152	28	475	480	(5)
Legal and professional	660	514	146	1,842	1,753	89
Marketing and donations	296	246	50	790	755	35
Other operating expenses	2,410	1,504	906	5,498	4,520	978
Total other expense	\$12,882	\$11,090	\$1,792	\$34,916	\$33,264	\$1,652

Following are explanations for the changes in these other expense categories for the three months ended September 30, 2015 compared to the same period in 2014:

Salaries and employee benefits, the largest component of other expense, increased \$306,000 to \$6,522,000 from \$6,216,000. The increase was primarily due to the addition of 84 employees with the acquisition of twelve ONB branches. There were 499 and 397 full-time equivalent employees at September 30, 2015 and 2014, respectively.

Occupancy and equipment expense increased \$368,000 or 17.9% to \$2,424,000 from \$2,056,000. This increase was primarily due to increases in rent and depreciation expenses related to the acquisition of twelve ONB Branches.

Net other real estate owned expense decreased \$42,000 or 102.4% to \$(1,000) from \$41,000. The decrease in 2015 was primarily due to less losses on properties sold during 2015 compared to properties sold in 2014.

Expense for amortization of intangible assets decreased \$7,000 or 4.3% to \$155,000 from \$162,000 for the nine months ended September 30, 2015 and 2014, respectively. The decrease in intangible amortization expense in 2015 was due to less amortization expense for core deposit intangibles in 2015 compared to 2014.

Other operating expenses increased \$906,000 or 60.2% to \$2,410,000 in 2015 from \$1,504,000 in 2014 primarily due to expenses incurred to complete the acquisition of twelve ONB Branches during the third quarter of 2015 compared to 2014.

On a net basis, all other categories of operating expenses increased \$224,000 or 24.6% to \$1,136,000 in 2015 from \$912,000 in 2014. The increase was primarily due to an increase in professional expenses.

Following are explanations for the changes in these other expense categories for the nine months ended September 30, 2015 compared to the same period in 2014:

Salaries and employee benefits, the largest component of other expense, increased \$552,000 to \$18,875,000 from \$18,323,000. The increase was primarily due to the addition of 84 employees with the acquisition of twelve ONB

branches. Other contributing factors are merit increases in 2015 for continuing employees, an increase in incentive compensation expense and number of employees added during 2015. There were 499 and 397 full-time equivalent employees at September 30, 2015 and 2014, respectively.

Occupancy and equipment expense increased \$10,000 or 0.2% to \$6,329,000 from \$6,319,000. This increase was primarily due to increases in rent and depreciation expenses related to the acquisition of twelve ONB Branches during the third quarter of 2015.

Net other real estate owned expense decreased \$23,000 or 100.0% to \$0 from \$23,000. The decrease in 2015 was primarily due to less losses on properties sold during 2015 compared to properties sold in 2014.

Expense for amortization of intangible assets decreased \$21,000 or 4.3% to \$466,000 from \$487,000 for the nine months ended September 30, 2015 and 2014, respectively. The decrease in intangible amortization expense in 2015 was due to less amortization expense for core deposit intangibles in 2015 compared to 2014.

Other operating expenses increased \$978,000 or 21.6% to \$5,498,000 in 2015 from \$4,520,000 in 2014 primarily due to expenses incurred to complete the acquisition of twelve ONB Branches during the third quarter of 2015.

On a net basis, all other categories of operating expenses increased \$119,000 or 4.0% to \$3,107,000 in 2015 from \$2,988,000 in 2014. The increase was due to increases in marketing and promotion expenses and legal and professional expenses.

Income Taxes

Total income tax expense amounted to \$6.6 million (35.9% effective tax rate) for the nine months ended September 30, 2015, compared to \$6.9 million (37.5% effective tax rate) for the same period in 2014. The decline in effective tax rate for 2015 is primarily due to a reduction in the Company's state tax rate, from 9.5% to 7.75% beginning January 1, 2015.

The Company files U.S. federal and state of Illinois income tax returns. The Company is no longer subject to U.S. federal or state income tax examinations by tax authorities for years before 2012.

Analysis of Balance Sheets

Securities

The Company's overall investment objectives are to insulate the investment portfolio from undue credit risk, maintain adequate liquidity, insulate capital against changes in market value and control excessive changes in earnings while optimizing investment performance. The types and maturities of securities purchased are primarily based on the Company's current and projected liquidity and interest rate sensitivity positions.

The following table sets forth the amortized cost of the available-for-sale and held-to-maturity securities as of September 30, 2015 and December 31, 2014 (dollars in thousands):

	September 30, 2015		December 31, 2014		
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 176,344	1.68	% \$ 154,874	1.72	%
Obligations of states and political subdivisions	95,354	3.25	% 75,589	3.33	%
Mortgage-backed securities: GSE residential	256,836	2.44	% 193,814	2.48	%
Trust preferred securities	3,167	1.24	% 3,300	1.14	%
Other securities	4,035	1.28	% 4,036	1.20	%
Total securities	\$ 535,736	2.32	% \$ 431,613	2.33	%

At September 30, 2015, the Company's investment portfolio increased by \$104.1 million from December 31, 2014 primarily due to purchases of obligations of U.S. government corporations and agencies securities and mortgage-backed securities as the company deploys the excess cash received in the acquisition of the ONB Branches. When purchasing investment securities, the Company considers its overall liquidity and interest rate risk profile, as well as the adequacy of expected returns relative to the risks assumed.

The table below presents the credit ratings as of September 30, 2015 for certain investment securities (in thousands):

	Amortized Cost	Estimated Fair Value	Average Credit Rating of Fair Value at June 30, 2015 (1)					
			AAA	AA +/-	A +/-	BBB +/-	< BBB -	Not rated
Available-for-sale:								
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 127,239	\$ 127,451	\$ 349	\$ 127,102	\$—	\$—	\$—	\$—
Obligations of state and political subdivisions	95,354	97,501	4,626	74,909	17,135	—	—	831
Mortgage-backed securities (2)	256,836	259,441	—	—	—	—	—	259,441
Trust preferred securities	3,167	2,125	—	—	—	2,125	—	—
Other securities	4,035	4,038	—	2,009	1,968	—	—	61
Total available-for-sale	\$ 486,631	\$ 490,556	\$ 4,975	\$ 204,020	\$ 19,103	\$ 2,125	\$—	\$ 260,333
Held-to-maturity:								
U.S. Treasury securities and obligations of U.S.	\$ 49,105	\$ 50,030	\$—	\$ 50,030	\$—	\$—	\$—	\$—

Explanation of Responses:

government corporations
and agencies

(1) Credit ratings reflect the lowest current rating assigned by a nationally recognized credit rating agency.

(2) Mortgage-backed securities include mortgage-backed securities (MBS) and collateralized mortgage obligation (CMO) issues from the following government sponsored enterprises: FHLMC, FNMA, GNMA and FHLB. While MBS and CMOs are no longer explicitly rated by credit rating agencies, the industry recognizes that they are backed by agencies which have an implied government guarantee.

54

The trust preferred securities is one trust preferred pooled security issued by FTN Financial Securities Corp. ("FTN"). The following table contains information regarding the trust preferred security as of September 30, 2015:

Deal name	PreTSL XXVIII	
Class	Mezzanine C-1	
Book value	\$3,167,000	
Fair value	\$2,125,000	
Unrealized gains/(losses)	\$(1,042,000)
Other-than-temporary impairment recorded in earnings	\$1,111,000	
Lowest credit rating assigned	CCC	
Number of performing banks	34	
Number of issuers in default	8	
Number of issuers in deferral	2	
Original collateral	\$360,850,000	
Actual defaults & deferrals as a % of original collateral	15.1	%
Remaining collateral	\$340,712,000	
Actual defaults & deferrals as a % of remaining collateral	16.0	%
Expected defaults & deferrals as a % of remaining collateral	41.2	%
Estimated incremental defaults required to break yield	\$65,766,000	
Performing collateral	\$287,395,000	
Current balance of class	\$34,852,000	
Subordination	\$268,853,000	
Excess subordination	\$10,797,000	
Excess subordination as a % of remaining performing collateral	3.8	%
Discount rate (1)	1.62%-4.29%	
Expected defaults & deferrals as a % of remaining collateral (2)	2% / .36	
Recovery assumption (3)	10	%
Prepayment assumption (4)	1	%

(1) The discount rate for floating rate bonds is a compound interest formula based on the LIBOR forward curve for each payment date

(2) 2% annually for 2 years and 36 basis points annually thereafter

(3) With 2 year lag

(4) Additional assumptions regarding prepayments:

Banks with more than \$15 billion in total assets as of 12/31/2009:

(a) For fixed rate TruPS, all securities will be called in one year

(b) For floating rate TruPS, (1) all securities with spreads greater than 250 bps will be called in one year (2) all securities with spreads between 150 bps and 250 bps will be called at a rate of 5% annually (3) all securities with spreads less than 150 bps will be called at a rate of 1% annually

Banks with less than \$15 billion in total assets as of 12/31/2009:

(a) For fixed rate TruPS, (1) all securities with coupons greater than 8% that were issued by healthy banks with the capacity to prepay will be called in one year (2) All remaining fixed rate securities will be called at a rate of 1% annually

(b) For floating rate TruPS, all securities will be called at a rate of 1% annually

The trust preferred pooled security is a Collateralized Debt Obligation (“CDOs”) backed by a pool of debt securities issued by financial institutions. The collateral consists of trust-preferred securities and subordinated debt securities issued by banks, bank holding companies and insurance companies. Performing collateral is the amount of remaining collateral less the balances of collateral in deferral or default. Subordination is the amount of performing collateral in excess of the current balance of a specified class and all classes senior to the specified class. Excess subordination is the amount that the performing collateral balance exceeds the current outstanding balance of the specific class, plus all senior classes. It is a static measure of credit enhancement, but does not incorporate all of the structural elements of the security deal. This amount can also be impacted by future defaults and deferrals, deferring balances that cure or redemptions of securities by issuers. A negative excess subordination indicates that the current performing collateral of the security would be insufficient to pay the current principal balance of the class notes after all of the senior classes’ notes were paid. However, the performing collateral balance excludes the collateral of issuers currently deferring their interest payments. Because these issuers are expected to resume payment in the future (within five years of the first deferred interest period), a negative excess subordination does not necessarily mean a class note holder will not receive a greater than projected or even full payment of cash flow at maturity.

At September 30, 2015 and 2014 the Company was receiving “payment in kind” (“PIK”) in lieu of cash interest on its trust preferred security investment as and to the extent described below. The Company’s use of “PIK” does not indicate that additional securities have been issued in satisfaction of any outstanding obligation; rather, it indicates that a coverage test of a class or tranche directly senior to the class in question has failed and interest received on the PIK note is being capitalized, which means the principal balance is being increased. Once the coverage test is met, the capitalized interest will be paid in cash and current cash interest payments will resume.

The Company’s trust preferred security investment allows, under the terms of the issue, for issuers to defer interest for up to five consecutive years. After five years, if not cured, the security is considered to be in default and the trustee may demand payment in full of principal and accrued interest. Issuers are also considered to be in default in the event of the failure of the issuer or a subsidiary. The structuring of the trust preferred security provides for a waterfall approach to absorbing losses whereby lower classes or tranches are initially impacted and more senior tranches are only impacted after lower tranches can no longer absorb losses. Likewise, the waterfall approach also applies to principal and interest payments received, as senior tranches have priority over lower tranches in the receipt of payments. Both deferred and defaulted issuers are considered non-performing, and the trustee calculates, on a quarterly basis, certain coverage tests prior to the payment of cash interest to owners of the various tranches of the securities. The coverage tests are compared to an over-collateralization target that states the balance of performing collateral as a percentage of the tranche balance plus the balance of all senior tranches. The tests must show that performing collateral is sufficient to meet requirements for the senior tranches, both in terms of cash flow and collateral value, before cash interest can be paid to subordinate tranches. As a result of the cash flow waterfall provisions within the structure of the security, when a senior tranche fails its coverage test, all of the cash flows that would have been paid to lower tranches are paid to the senior tranche and recorded as a reduction of the senior tranches’ principal. This principal reduction in the senior tranche continues until the coverage test of the senior tranche is passed or the principal of the tranche is paid in full. For so long as the cash flows are being diverted to the senior tranches, the amount of interest due and payable to the subordinate tranches is capitalized and recorded as an increase in the principal value of the tranche. The Company’s trust preferred security investment is in the mezzanine tranche or class which is subordinate to more senior tranches of the issue. The Company is receiving PIK for this security due to failure of the required senior tranche coverage tests described. This security is projected to remain in PIK status for approximately two more quarters.

The impact of payment of PIK to subordinate tranches is to strengthen the position of the senior tranches by reducing the senior tranches’ principal balances relative to available collateral and cash flow. The impact to the subordinate tranches is to increase principal balances, decrease cash flow, and increase credit risk to the tranches receiving the PIK. The risk to holders of a security of a tranche in PIK status is that the remaining total cash flow will not be

sufficient to repay all principal and capitalized interest related to the investment.

During the fourth quarter of 2010, after analysis of the expected future cash flows and the timing of resumed interest payments, the Company determined that placing the trust preferred security on non-accrual status was the most prudent course of action. The Company stopped all accrual of interest and ceased to capitalize any PIK to the principal balance of the security. The Company intends to keep the security on non-accrual status until the scheduled interest payments resume on a regular basis and any previously recorded PIK has been paid. The PIK status of the securities, among other factors, indicates potential other-than-temporary impairment (“OTTI”) and accordingly, the Company has performed further detailed analysis of the investments cash flows and the credit conditions of the underlying issuers. This analysis incorporates, among other things, the waterfall provisions and any resulting PIK status of these securities to determine if cash flow will be sufficient to pay all principal and interest due to the investment tranche held by the Company.

56

See discussion below and Note 3 – Investment Securities in the notes to the financial statements for more detail regarding this analysis. Based on this analysis, the Company believes the amortized costs recorded for the trust preferred security investment accurately reflects the position of the security at September 30, 2015 and December 31, 2014.

Other-than-temporary Impairment of Securities

Declines in the fair value, or unrealized losses, of all available for sale investment securities, are reviewed to determine whether the losses are either a temporary impairment or OTTI. Temporary adjustments are recorded when the fair value of a security fluctuates from its historical cost. Temporary adjustments are recorded in accumulated other comprehensive income, and impact the Company's equity position. Temporary adjustments do not impact net income. A recovery of available for sale security prices also is recorded as an adjustment to other comprehensive income for securities that are temporarily impaired, and results in a positive impact to the Company's equity position.

OTTI is recorded when the fair value of an available for sale security is less than historical cost, and it is probable that all contractual cash flows will not be collected. Investment securities are evaluated for OTTI on at least a quarterly basis. In conducting this assessment, the Company evaluates a number of factors including, but not limited to:

- how much fair value has declined below amortized cost;
- how long the decline in fair value has existed;
- the financial condition of the issuers;
- contractual or estimated cash flows of the security;
- underlying supporting collateral;
- past events, current conditions and forecasts;
- significant rating agency changes on the issuer; and
- the Company's intent and ability to hold the security for a period of time sufficient to allow for any anticipated recovery in fair value.

If the Company intends to sell the security or if it is more likely than not the Company will be required to sell the security before recovery of its amortized cost basis, the entire amount of OTTI is recorded to noninterest income, and therefore, results in a negative impact to net income. Because the available for sale securities portfolio is recorded at fair value, the conclusion as to whether an investment decline is other-than-temporarily impaired, does not significantly impact the Company's equity position, as the amount of the temporary adjustment has already been reflected in accumulated other comprehensive income/loss.

If the Company does not intend to sell the security and it is not more-likely-than-not it will be required to sell the security before recovery of its amortized cost basis, only the amount related to credit loss is recognized in earnings. In determining the portion of OTTI that is related to credit loss, the Company compares the present value of cash flows expected to be collected from the security with the amortized cost basis of the security. The remaining portion of OTTI, related to other factors, is recognized in other comprehensive earnings, net of applicable taxes.

The term "other-than-temporary" is not intended to indicate that the decline is permanent, but indicates that the prospects for a near-term recovery of value are not necessarily favorable, or that there is a general lack of evidence to support a realizable value equal to or greater than the carrying value of the investment. See Note 3 -- Investment Securities in the Notes to Condensed Consolidated Financial Statements (unaudited) for a discussion of the Company's evaluation and subsequent charges for OTTI.

Loans

The loan portfolio (net of unearned interest) is the largest category of the Company's earning assets. The following table summarizes the composition of the loan portfolio, including loans held for sale, as of September 30, 2015 and December 31, 2014 (in thousands):

	September 30, 2015	% Outstanding Loans	December 31, 2014	% Outstanding Loans	
Construction and land development	\$33,389	2.7	% \$21,627	2.0	%
Agricultural real estate	120,314	9.7	% 110,193	10.4	%
1-4 Family residential properties	234,777	19.0	% 181,921	17.1	%
Multifamily residential properties	54,932	4.4	% 53,129	5.0	%
Commercial real estate	377,906	30.6	% 379,604	35.8	%
Loans secured by real estate	821,318	66.4	% 746,474	70.3	%
Agricultural loans	65,596	5.3	% 68,298	6.4	%
Commercial and industrial loans	295,335	23.9	% 223,780	21.1	%
Consumer loans	43,304	3.5	% 15,118	1.4	%
All other loans	11,196	0.9	% 8,736	0.8	%
Total loans	\$1,236,749	100.0	% \$1,062,406	100.0	%

Overall net loans increased \$174.3 million, or 16.41%. The increase was primarily due to loans added in the acquisition of twelve ONB Branches and increases in commercial and industrial loans offset by a decline in commercial real estate loans. The balance of real estate loans held for sale, included in the balances shown above, amounted to \$1,346,000 and \$1,958,000 as of September 30, 2015 and December 31, 2014, respectively.

Commercial and commercial real estate loans generally involve higher credit risks than residential real estate and consumer loans. Because payments on loans secured by commercial real estate or equipment are often dependent upon the successful operation and management of the underlying assets, repayment of such loans may be influenced to a great extent by conditions in the market or the economy. The Company does not have any sub-prime mortgages or credit card loans outstanding which are also generally considered to be higher credit risk.

The following table summarizes the loan portfolio geographically by branch region as of September 30, 2015 and December 31, 2014 (dollars in thousands):

	September 30, 2015		December 31, 2014		
	Principal balance	% Outstanding Loans	Principal balance	% Outstanding loans	
Central region	378,505	30.5	% 368,484	34.7	%
Sullivan region	149,549	12.1	% 153,731	14.5	%
Decatur region	286,343	23.2	% 256,241	24.1	%
Peoria region	161,202	13.0	% 166,056	15.6	%
Highland region	110,715	9.0	% 117,894	11.1	%
Southern region	150,435	12.2	% —	—	%
Total all regions	\$1,236,749	100.0	% \$1,062,406	100.0	%

Loans are geographically dispersed among these regions located in central and southern Illinois. While these regions have experienced some economic stress during 2015 and 2014, the Company does not consider these locations high risk areas since these regions have not experienced the significant declines in real estate values seen in some other areas in the United States.

The Company does not have a concentration, as defined by the regulatory agencies, in construction and land development loans or commercial real estate loans as a percentage of total risk-based capital for the periods shown above. At September 30, 2015 and December 31, 2014, the Company did have industry loan concentrations in excess of 25% of total risk-based capital in the following industries (dollars in thousands):

	September 30, 2015		December 31, 2014		
	Principal balance	% Outstanding Loans	Principal balance	% Outstanding Loans	
Other grain farming	\$ 154,824	12.52	% \$ 155,136	14.60	%
All Other General Merchandise Stores (1)	41,732	3.37	% 46,169	4.35	%
Lessors of non-residential buildings	106,896	8.64	% 96,508	9.08	%
Lessors of residential buildings & dwellings	68,018	5.50	% 65,781	6.19	%
Hotels and motels	60,496	4.89	% 56,546	5.32	%

(1) Not a concentration as of September 30, 2015, but shown for comparative purposes due to concentration at December 31, 2014.

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

The following table presents the balance of loans outstanding as of September 30, 2015, by contractual maturities (in thousands):

	Maturity (1)			Total
	One year or less(2)	Over 1 through 5 years	Over 5 years	
Construction and land development	\$ 30,325	\$ 2,222	\$ 842	\$ 33,389
Agricultural real estate	6,304	53,252	60,758	120,314
1-4 Family residential properties	19,704	83,109	131,964	234,777
Multifamily residential properties	5,710	18,802	30,420	54,932
Commercial real estate	34,605	239,354	103,947	377,906
Loans secured by real estate	96,648	396,739	327,931	821,318
Agricultural loans	49,386	15,603	607	65,596
Commercial and industrial loans	129,467	116,408	49,460	295,335
Consumer loans	3,415	26,484	13,405	43,304
All other loans	1,604	2,000	7,592	11,196
Total loans	\$ 280,520	\$ 557,234	\$ 398,995	\$ 1,236,749

(1) Based upon remaining contractual maturity.

(2) Includes demand loans, past due loans and overdrafts.

As of September 30, 2015, loans with maturities over one year consisted of approximately \$845.6 million in fixed rate loans and approximately \$110.6 million in variable rate loans. The loan maturities noted above are based on the contractual provisions of the individual loans. The Company has no general policy regarding renewals and borrower requests, which are handled on a case-by-case basis.

Nonperforming Loans and Nonperforming Other Assets

Nonperforming loans include: (a) loans accounted for on a nonaccrual basis; (b) accruing loans contractually past due ninety days or more as to interest or principal payments; and (c) loans not included in (a) and (b) above which are defined as “troubled debt restructurings”. Repossessed assets include primarily repossessed real estate and automobiles.

The Company’s policy is to discontinue the accrual of interest income on any loan for which principal or interest is ninety days past due. The accrual of interest is discontinued earlier when, in the opinion of management, there is reasonable doubt as to the timely collection of interest or principal. Once interest accruals are discontinued, accrued but uncollected interest is charged against current year income. Subsequent receipts on non-accrual loans are recorded as a reduction of principal, and interest income is recorded only after principal recovery is reasonably assured. Nonaccrual loans are returned to accrual status when, in the opinion of management, the financial position of the borrower indicates there is no longer any reasonable doubt as to the timely collection of interest or principal.

Restructured loans are loans on which, due to deterioration in the borrower’s financial condition, the original terms have been modified in favor of the borrower or either principal or interest has been forgiven. Repossessed assets represent property acquired as the result of borrower defaults on loans. These assets are recorded at estimated fair value, less estimated selling costs, at the time of foreclosure or repossession. Write-downs occurring at foreclosure are charged against the allowance for loan losses. On an ongoing basis, properties are appraised as required by market indications and applicable regulations. Write-downs for subsequent declines in value are recorded in non-interest expense in other real estate owned along with other expenses related to maintaining the properties.

The following table presents information concerning the aggregate amount of nonperforming loans and repossessed assets at September 30, 2015 and December 31, 2014 (in thousands):

	September 30, 2015	December 31, 2014		
Nonaccrual loans	\$2,967	\$4,105		
Restructured loans which are performing in accordance with revised terms	544	435		
Total nonperforming loans	3,511	4,540		
Repossessed assets	320	263		
Total nonperforming loans and repossessed assets	\$3,831	\$4,803		
Nonperforming loans to loans, before allowance for loan losses	0.33	% 0.43		%
Nonperforming loans and repossessed assets to loans, before allowance for loan losses	0.36	% 0.45		%

The \$1,138,000 decrease in nonaccrual loans during 2015 resulted from the net of \$1,429,000 of loans put on nonaccrual status, offset by \$2,416,000 of loans becoming current or paid-off, \$74,000 of loans transferred to other real estate and 77,000 of loans charged off. The following table summarizes the composition of nonaccrual loans (in thousands):

	September 30, 2015		December 31, 2014		
	Balance	% of Total	Balance	% of Total	
Construction and land development	\$148	5.0	% \$785	19.1	%
Agricultural real estate	25	0.8	% 29	0.7	%
1-4 Family residential properties	814	27.4	% 878	21.4	%
Multifamily Residential properties	323	10.9	% —	—	%
Commercial real estate	738	24.9	% 2,074	50.5	%
Loans secured by real estate	2,048	69.0	% 3,766	91.7	%
Commercial and industrial loans	696	23.5	% 332	8.1	%
Consumer loans	223	7.5	% 7	0.2	%

Total loans	\$2,967	100.0	%	\$4,105	100.0	%
-------------	---------	-------	---	---------	-------	---

Interest income that would have been reported if nonaccrual and restructured loans had been performing totaled \$49,000 and \$44,000 for the nine months ended September 30, 2015 and 2014, respectively.

60

The \$57,000 increase in repossessed assets during the first nine months of 2015 resulted from the net of \$178,000 of additional assets repossessed and \$114,000 of repossessed assets sold, and a \$7,000 write-down of one repossessed asset. The following table summarizes the composition of repossessed assets (in thousands):

	September 30, 2015		December 31, 2014		
	Balance	% of Total	Balance	% of Total	%
Construction and land development	\$200	62.5	% \$201	76.4	%
1-4 family residential properties	120	37.5	% 62	23.6	%
Total repossessed collateral	\$320	100.0	% \$263	100.0	%

Repossessed assets sold during the first nine months of 2015 resulted in net gains of \$33,000, of which \$32,000 was related to real estate asset sales and \$1,000 was related to other repossessed assets. Repossessed assets sold during 2014 resulted in net gains of \$41,000, all of which was related to real estate asset sales.

Loan Quality and Allowance for Loan Losses

The allowance for loan losses represents management's estimate of the reserve necessary to adequately account for probable losses existing in the current portfolio. The provision for loan losses is the charge against current earnings that is determined by management as the amount needed to maintain an adequate allowance for loan losses. In determining the adequacy of the allowance for loan losses, and therefore the provision to be charged to current earnings, management relies predominantly on a disciplined credit review and approval process that extends to the full range of the Company's credit exposure. The review process is directed by overall lending policy and is intended to identify, at the earliest possible stage, borrowers who might be facing financial difficulty. Once identified, the magnitude of exposure to individual borrowers is quantified in the form of specific allocations of the allowance for loan losses. Management considers collateral values and guarantees in the determination of such specific allocations. Additional factors considered by management in evaluating the overall adequacy of the allowance include historical net loan losses, the level and composition of nonaccrual, past due and renegotiated loans, trends in volumes and terms of loans, effects of changes in risk selection and underwriting standards or lending practices, lending staff changes, concentrations of credit, industry conditions and the current economic conditions in the region where the Company operates.

Given the current state of the economy, management did assess the impact of the recession on each category of loans and adjusted historical loss factors for more recent economic trends. Management utilizes a five-year loss history as one of several components in assessing the probability of inherent future losses. Given the continued weakened economic conditions, management also increased its allocation to various loan categories for economic factors during 2015 and 2014. Some of the economic factors include the potential for reduced cash flow for commercial operating loans from reduction in sales or increased operating costs, decreased occupancy rates for commercial buildings, reduced levels of home sales for commercial land developments, the uncertainty regarding grain prices, drought conditions and increased operating costs for farmers, and increased levels of unemployment and bankruptcy impacting consumer's ability to pay. Each of these economic uncertainties was taken into consideration in developing the level of the reserve. Management considers the allowance for loan losses a critical accounting policy.

Management recognizes there are risk factors that are inherent in the Company's loan portfolio. All financial institutions face risk factors in their loan portfolios because risk exposure is a function of the business. The Company's operations (and therefore its loans) are concentrated in east central Illinois, an area where agriculture is the dominant industry. Accordingly, lending and other business relationships with agriculture-based businesses are critical to the Company's success. At September 30, 2015, the Company's loan portfolio included \$186.0 million of loans to borrowers whose businesses are directly related to agriculture. Of this amount, \$154.8 million was

concentrated in other grain farming. Total loans to borrowers whose businesses are directly related to agriculture increased \$7.5 million from \$178.5 million at December 31, 2014 while loans concentrated in other grain farming decreased \$0.3 million from \$155.1 million at December 31, 2014.

While the Company adheres to sound underwriting practices, including collateralization of loans, any extended period of low commodity prices, drought conditions, significantly reduced yields on crops and/or reduced levels of government assistance to the agricultural industry could result in an increase in the level of problem agriculture loans and potentially result in loan losses within the agricultural portfolio.

In addition, the Company has \$60.5 million of loans to motels and hotels. The performance of these loans is dependent on borrower specific issues as well as the general level of business and personal travel within the region. While the Company adheres to sound underwriting standards, a prolonged period of reduced business or personal travel could result in an increase in nonperforming loans to this business segment and potentially in loan losses. The Company also has \$106.9 million of loans to lessors of non-residential buildings and \$68.0 million of loans to lessors of residential buildings and dwellings.

The structure of the Company's loan approval process is based on progressively larger lending authorities granted to individual loan officers, loan committees, and ultimately the Board of Directors. Outstanding balances to one borrower or affiliated borrowers are limited by federal regulation; however, limits well below the regulatory thresholds are generally observed. The vast majority of the Company's loans are to businesses located in the geographic market areas served by the Company's branch bank system. Additionally, a significant portion of the collateral securing the loans in the portfolio is located within the Company's primary geographic footprint. In general, the Company adheres to loan underwriting standards consistent with industry guidelines for all loan segments.

The Company minimizes credit risk by adhering to sound underwriting and credit review policies. Management and the board of directors of the Company review these policies at least annually. Senior management is actively involved in business development efforts and the maintenance and monitoring of credit underwriting and approval. The loan review system and controls are designed to identify, monitor and address asset quality problems in an accurate and timely manner. On a quarterly basis, the board of directors and management review the status of problem loans and determine a best estimate of the allowance. In addition to internal policies and controls, regulatory authorities periodically review asset quality and the overall adequacy of the allowance for loan losses.

Analysis of the allowance for loan losses as of September 30, 2015 and 2014, and of changes in the allowance for the three and nine month periods ended September 30, 2015 and 2014, is as follows (dollars in thousands):

	Three months ended September		Nine months ended September		
	30, 2015	2014	30, 2015	2014	
Average loans outstanding, net of unearned income	\$1,151,089	\$1,033,991	\$1,084,184	\$1,010,767	
Allowance-beginning of period	13,931	13,681	13,682	13,249	
Charge-offs:					
Real estate-mortgage	23	41	122	110	
Commercial, financial & agricultural	175	11	187	19	
Installment	4	1	258	18	
Other	68	80	174	168	
Total charge-offs	270	133	741	315	
Recoveries:					
Real estate-mortgage	2	62	178	109	
Commercial, financial & agricultural	45	9	87	65	
Installment	5	4	21	19	
Other	34	38	112	83	
Total recoveries	86	113	398	276	
Net charge-offs (recoveries)	184	20	343	39	
Provision for loan losses	481	44	889	495	
Allowance-end of period	\$14,228	\$13,705	\$14,228	\$13,705	
Ratio of annualized net charge-offs to average loans	0.06	% 0.01	% 0.13	% 0.01	%
Ratio of allowance for loan losses to loans outstanding (less unearned interest at end of period)	1.15	% 1.32	% 1.15	% 1.32	%
Ratio of allowance for loan losses to nonperforming loans	405	% 284	% 405	% 284	%

The ratio of allowance for loan losses to loans outstanding was 1.15% as of September 30, 2015 compared to 1.32% as of September 30, 2014. The decrease in the ratio is primarily due to \$152 million of additional loans added from the ONB Branch acquisition that were all performing loans. Therefore no additional provision for loan losses was recorded for these loans. The ratio of the allowance for loan losses to nonperforming loans is 405% as of September 30, 2015 compared to 284% as of September 30, 2014. The increase in this ratio is primarily due to the decline in nonperforming loans to \$3.5 million at September 30, 2015 from \$4.8 million at September 30, 2014. During the first nine months of 2015, the Company had net charge offs of \$343,000 compared to net charge offs of \$39,000 in 2014. There was significant charge off of one commercial loan of \$149,000 and was one significant charge off of one consumer loan of \$251,000 during the first nine months of 2015. There were no significant charge offs during the first nine months of 2014.

Deposits

Funding of the Company's earning assets is substantially provided by a combination of consumer, commercial and public fund deposits. The Company continues to focus its strategies and emphasis on retail core deposits, the major component of funding sources. The following table sets forth the average deposits and weighted average rates for the nine months ended September 30, 2015 and 2014 and for the year ended December 31, 2014 (dollars in thousands):

	Nine Months Ended September 30, 2015		Nine months ended September 30, 2014		Year ended December 31, 2014			
	Average Balance	Weighted Average Rate	Average Balance	Weighted Average Rate	Average Balance	Weighted Average Rate		
Demand deposits:								
Non-interest-bearing	\$242,421	—	% \$224,396	—	% \$223,505	—	%	
Interest-bearing	617,543	0.11	% 557,811	0.12	% 559,168	0.12	%	
Savings	290,048	0.14	% 283,527	0.13	% 281,185	0.13	%	
Time deposits	210,332	0.56	% 230,405	0.57	% 229,763	0.56	%	
Total average deposits	\$1,360,344	0.17	% \$1,296,139	0.18	% \$1,293,621	0.18	%	

The following table sets forth the high and low month-end balances for the nine months ended September 30, 2015 and 2014 and for the year ended December 31, 2014 (in thousands):

	Nine months ended September 30, 2015	Nine months ended September 30, 2014	Year ended December 31, 2014
High month-end balances of total deposits	\$1,741,079	\$1,305,825	\$1,305,825
Low month-end balances of total deposits	1,266,199	1,279,569	1,265,058

During the first nine months of 2015, the average balance of deposits increased by \$66.7 million from the average balance for the year ended December 31, 2014. Average non-interest bearing deposits increased by \$18.9 million, average interest bearing balances increased by \$58.4 million, savings account balances increased \$8.9 million and balances of time deposits decreased \$19.4 million due to higher rate customer CDs that matured and were not renewed and brokered CDs that were not replaced. These increases were primarily the result of deposit balances acquired in acquisition of twelve ONB Branches.

Balances of time deposits of \$100,000 or more include time deposits maintained for public fund entities and consumer time deposits. The following table sets forth the maturity of time deposits of \$100,000 or more at September 30, 2015 and December 31, 2014 (in thousands):

	September 30, 2015	December 31, 2014
3 months or less	\$35,518	\$35,604
Over 3 through 6 months	10,871	15,270
Over 6 through 12 months	18,563	21,710
Over 12 months	27,961	25,861
Total	\$92,913	\$98,445

Repurchase Agreements and Other Borrowings

Securities sold under agreements to repurchase are short-term obligations of First Mid Bank. First Mid Bank collateralizes these obligations with certain government securities that are direct obligations of the United States or one of its agencies. First Mid Bank offers these retail repurchase agreements as a cash management service to its corporate customers. Other borrowings consist of Federal Home Loan Bank (“FHLB”) advances, federal funds purchased, loans (short-term or long-term debt) that the Company has outstanding and junior subordinated debentures.

Information relating to securities sold under agreements to repurchase and other borrowings as of September 30, 2015 and December 31, 2014 is presented below (dollars in thousands):

	September 30, 2015	December 31, 2014		
Securities sold under agreements to repurchase	\$ 108,499	\$ 121,869		
Federal Home Loan Bank advances:				
Fixed term – due in one year or less	5,000	—		
Fixed term – due after one year	15,000	20,000		
Junior subordinated debentures	20,620	20,620		
Total	\$ 149,119	\$ 162,489		
Average interest rate at end of period	0.95	% 0.54		%
Maximum outstanding at any month-end:				
Securities sold under agreements to repurchase	\$ 122,022	\$ 121,869		
Federal Home Loan Bank advances:				
Fixed term – due in one year or less	10,000	10,000		
Fixed term – due after one year	20,000	20,000		
Debt:				
Debt due in one year or less	2,000	—		
Junior subordinated debentures	20,620	20,620		
Averages for the period (YTD):				
Securities sold under agreements to repurchase	\$ 116,443	\$ 97,478		
Federal funds purchased	190	16		
Federal Home Loan Bank advances:				
Fixed term – due in one year or less	5,641	1,520		
Fixed term – due after one year	18,590	13,055		
Debt:				
Loans due in one year or less	630	101		
Junior subordinated debentures	20,620	20,620		
Total	\$ 162,114	\$ 132,790		
Average interest rate during the period	0.34	% 0.30		%

Securities sold under agreements to repurchase decreased \$13.4 million during the first nine months of 2015 primarily due to the seasonal declines in balances of various customers. FHLB advances represent borrowings by First Mid Bank to economically fund loan demand.

At September 30, 2015 the fixed term advances consisted of \$20 million as follows:

- \$5 million advance with a 10-year maturity, at 4.58%, due July 14, 2016, one year lockout, callable quarterly
- \$5 million advance with a 6-year maturity, at 2.30%, due August 24, 2020
- \$5 million advance with a 7-year maturity, at 2.55% due October 1, 2021
- \$5 million advance with a 8-year maturity, at 2.40% due January 9, 2023

The Company is party to a revolving credit agreement with The Northern Trust Company in the amount of \$15 million. The balance on this line of credit was \$0 as of September 30, 2015. This loan was renewed on April 17, 2015 for one year as a revolving credit agreement with a maximum available balance of \$15 million. The interest rate is floating at 2.25% over the federal funds rate (2.38% at September 30, 2015). The loan is unsecured and subject to a borrowing agreement containing requirements for the Company and First Mid Bank, including requirements for operating and capital ratios. The Company and its subsidiary bank were in compliance with the then existing covenants at September 30, 2015 and 2014 and December 31, 2014.

On February 27, 2004, the Company completed the issuance and sale of \$10 million of floating rate trust preferred securities through First Mid-Illinois Statutory Trust I (“Trust I”), a statutory business trust and wholly-owned unconsolidated subsidiary of the Company, as part of a pooled offering. The Company established Trust I for the purpose of issuing the trust preferred securities. The \$10 million in proceeds from the trust preferred issuance and an additional \$310,000 for the Company’s investment in common equity of Trust I, a total of \$10,310 000, was invested in junior subordinated debentures of the Company. The underlying junior subordinated debentures issued by the Company to Trust I mature in 2034, bear interest at three-month London Interbank Offered Rate (“LIBOR”) plus 280 basis points (3.14% and 3.09% at September 30, 2015 and December 31, 2014), reset quarterly, and are callable at par, at the option of the Company, quarterly. The Company used the proceeds of the offering for general corporate purposes.

On April 26, 2006, the Company completed the issuance and sale of \$10 million of fixed/floating rate trust preferred securities through First Mid-Illinois Statutory Trust II (“Trust II”), a statutory business trust and wholly-owned unconsolidated subsidiary of the Company, as part of a pooled offering. The Company established Trust II for the purpose of issuing the trust preferred securities. The \$10 million in proceeds from the trust preferred issuance and an additional \$310,000 for the Company’s investment in common equity of Trust II, a total of \$10,310 000, was invested in junior subordinated debentures of the Company. The underlying junior subordinated debentures issued by the Company to Trust II mature in 2036, bore interest at a fixed rate of 6.98% paid quarterly until June 15, 2011 and then converted to floating rate (LIBOR plus 160 basis points) after June 15, 2011 (1.94% and 1.84% at and September 30, 2015 and December 31, 2014, respectively). The net proceeds to the Company were used for general corporate purposes, including the Company’s acquisition of Mansfield Bancorp, Inc. in 2006.

The trust preferred securities issued by Trust I and Trust II are included as Tier 1 capital of the Company for regulatory capital purposes. On March 1, 2005, the Federal Reserve Board adopted a final rule that allows the continued limited inclusion of trust preferred securities in the calculation of Tier 1 capital for regulatory purposes. The final rule provided a five-year transition period, ending September 30, 2010, for application of the revised quantitative limits. On March 17, 2009, the Federal Reserve Board adopted an additional final rule that delayed the effective date of the new limits on inclusion of trust preferred securities in the calculation of Tier 1 capital until March 31, 2012. The application of the revised quantitative limits did not and is not expected to have a significant impact on its calculation of Tier 1 capital for regulatory purposes or its classification as well-capitalized. The Dodd-Frank Act, signed into law July 21, 2010, removes trust preferred securities as a permitted component of a holding company’s Tier 1 capital after a three-year phase-in period beginning January 1, 2013 for larger holding companies. For holding companies with less than \$15 billion in consolidated assets, existing issues of trust preferred securities are grandfathered and not subject to this new restriction. Similarly, the final rule implementing the Basel III

reforms allows holding companies with less than \$15 billion in consolidated assets as of December 31, 2009 to continue to count toward Tier 1 capital any trust preferred securities issued before May 19, 2010. New issuances of trust preferred securities, however would not count as Tier 1 regulatory capital.

In addition to requirements of the Dodd-Frank Act discussed above, the act also required the federal banking agencies to adopt rules that prohibit banks and their affiliates from engaging in proprietary trading and investing in and sponsoring certain unregistered investment companies (defined as hedge funds and private equity funds). This rule is generally referred to as the “Volcker Rule.” On December 10, 2013, the federal banking agencies issued final rules to implement the prohibitions required by the Volcker Rule. Following the publication of the final rule, and in reaction to concerns in the banking industry regarding the adverse impact the final rule’s treatment of certain collateralized debt instruments has on community banks, the federal banking agencies approved an interim final rule to permit banking entities to retain interests in certain collateralized debt

obligations backed primarily by trust preferred securities. Under the interim final rule, the agencies permit the retention of an interest in or sponsorship of covered funds by banking entities under \$15 billion in assets if (1) the collateralized debt obligation was established and issued prior to May 19, 2010, (2) the banking entity reasonably believes that the offering proceeds received by the collateralized debt obligation were invested primarily in qualifying trust preferred collateral, and (3) the banking entity's interests in the collateralized debt obligation was acquired on or prior to December 10, 2013. Although the Volcker Rule impacts many large banking entities, the Company does not currently anticipate that the Volcker Rule will have a material effect on the operations of the Company or First Mid Bank.

Interest Rate Sensitivity

The Company seeks to maximize its net interest margin while maintaining an acceptable level of interest rate risk. Interest rate risk can be defined as the amount of forecasted net interest income that may be gained or lost due to changes in the interest rate environment, a variable over which management has no control. Interest rate risk, or sensitivity, arises when the maturity or repricing characteristics of interest-bearing assets differ significantly from the maturity or repricing characteristics of interest-bearing liabilities. The Company monitors its interest rate sensitivity position to maintain a balance between rate sensitive assets and rate sensitive liabilities. This balance serves to limit the adverse effects of changes in interest rates. The Company's asset liability management committee (ALCO) oversees the interest rate sensitivity position and directs the overall allocation of funds.

In the banking industry, a traditional way to measure potential net interest income exposure to changes in interest rates is through a technique known as "static GAP" analysis which measures the cumulative differences between the amounts of assets and liabilities maturing or repricing at various intervals. By comparing the volumes of interest-bearing assets and liabilities that have contractual maturities and repricing points at various times in the future, management can gain insight into the amount of interest rate risk embedded in the balance sheet.

Edgar Filing: CORNERSTONE BANCORP INC - Form 4/A

The following table sets forth the Company's interest rate repricing GAP for selected maturity periods at September 30, 2015 (dollars in thousands):

	Rate Sensitive Within						Total	Fair Value
	1 year	1-2 years	2-3 years	3-4 years	4-5 years	Thereafter		
Interest-earning assets:								
Federal funds								
sold and other interest-bearing deposits	\$ 174,386	\$—	\$—	\$—	\$—	\$—	\$ 174,386	\$ 174,386
Certificates of deposit investments								
Taxable investment securities	62	349	5,021	36,705	57,279	342,744	442,160	443,085
Nontaxable investment securities	—	459	1,026	416	1,898	93,702	97,501	97,501
Loans	548,351	213,108	187,185	112,814	92,739	82,552	1,236,749	1,248,278
Total	\$ 735,480	\$ 214,165	\$ 193,232	\$ 149,935	\$ 151,916	\$ 518,998	\$ 1,963,726	\$ 1,976,202
Interest-bearing liabilities:								
Savings and NOW accounts	\$ 196,947	\$ 42,460	\$ 44,154	\$ 62,790	\$ 64,742	\$ 384,914	\$ 796,007	\$ 796,006
Money market accounts	311,848	3,096	3,182	4,128	4,214	22,275	348,743	348,743
Other time deposits	182,657	32,122	22,062	9,332	8,577	1,154	255,904	256,029
Short-term borrowings/debt	108,499	—	—	—	—	—	108,499	108,526
Long-term borrowings/debt	25,620	—	—	—	5,000	10,000	40,620	33,255
Total	\$ 825,571	\$ 77,678	\$ 69,398	\$ 76,250	\$ 82,533	\$ 418,343	\$ 1,549,773	\$ 1,542,559
Rate sensitive assets – rate sensitive liabilities	\$ (90,091)	\$ 136,487	\$ 123,834	\$ 73,685	\$ 69,383	\$ 110,655	\$ 413,953	
Cumulative GAP	\$ (90,091)	\$ 46,396	\$ 170,230	\$ 243,915	\$ 313,298	\$ 413,953		
Cumulative amounts as % of total Rate sensitive assets	(4.6)%	7.0 %	6.3 %	3.8 %	3.5 %	5.1 %	%	
Cumulative Ratio	(4.6)%	2.4 %	8.7 %	12.4 %	16.0 %	21.1 %	%	

The static GAP analysis shows that at September 30, 2015, the Company was liability sensitive, on a cumulative basis, through the twelve-month time horizon. This indicates that future increases in interest rates could have an adverse effect on net interest income.

Explanation of Responses:

There are several ways the Company measures and manages the exposure to interest rate sensitivity, including static GAP analysis. The Company's ALCO also uses other financial models to project interest income under various rate scenarios and prepayment/extension assumptions consistent with First Mid Bank's historical experience and with known industry trends. ALCO meets at least monthly to review the Company's exposure to interest rate changes as indicated by the various techniques and to make necessary changes in the composition terms and/or rates of the assets and liabilities. The Company is currently experiencing downward pressure on asset yields resulting from the extended period of historically low interest rates and heightened competition for loans. A continuation of this environment could result in a decline in interest income and the net interest margin.

68

Capital Resources

At September 30, 2015, the Company's stockholders' equity had increased \$38.9 million, or 23.6%, to \$203.8 million from \$164.9 million as of December 31, 2014. The increase resulted primarily from the private placement capital raise completed during the second quarter of 2015 which resulted in an additional common equity of \$29.3 million. Also during the first nine months of 2015, net income contributed \$11.9 million to equity before the payment of dividends to stockholders. The change in market value of available-for-sale investment securities increased stockholders' equity by \$2.7 million, net of tax and additional purchases of treasury stock (52,145 shares at an average cost of \$19.37 per share) decreased stockholders' equity by approximately \$1 million.

The Company is subject to various regulatory capital requirements administered by the federal banking agencies. Bank holding companies follow minimum regulatory requirements established by the Board of Governors of the Federal Reserve System ("Federal Reserve System"), and First Mid Bank follows similar minimum regulatory requirements established for national banks by the Office of the Comptroller of the Currency ("OCC"). Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary action by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Quantitative measures established by regulatory capital standards to ensure capital adequacy require the the Company and its subsidiary bank to maintain a minimum capital amounts and ratios (set forth in the table below). Management believes that, as of September 30, 2015 and December 31, 2014, the Company and First Mid Bank met all capital adequacy requirements.

To be categorized as well-capitalized, total risk-based capital, Tier 1 risk-based capital, common equity Tier 1 risk-based capital and Tier 1 leverage ratios must be maintained as set forth in the following table (dollars in thousands):

69

	Actual		Required Minimum For Capital Adequacy Purposes		To Be Well-Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
September 30, 2015						
Total Capital (to risk-weighted assets)						
Company	\$202,743	14.88	% \$108,982	> 8.00%	N/A	N/A
First Mid Bank	193,666	14.30	108,312	> 8.00	\$135,391	> 10.00%
Tier 1 Capital (to risk-weighted assets)						
Company	188,515	13.84	81,737	> 6.00	N/A	N/A
First Mid Bank	179,438	13.25	81,234	> 6.00	108,312	> 8.00
Common Equity Tier 1 Capital (to risk-weighted assets)						
Company	141,115	10.36	61,302	> 4.50	N/A	N/A
First Mid Bank	179,438	13.25	60,926	> 4.50	88,004	> 6.50
Tier 1 Capital (to average assets)						
Company	188,515	10.21	73,824	> 4.00	N/A	N/A
First Mid Bank	179,438	9.76	73,535	> 4.00	91,919	> 5.00
December 31, 2014						
Total Capital (to risk-weighted assets)						
Company	\$180,678	15.60	% \$92,675	> 8.00%	N/A	N/A
First Mid Bank	172,991	15.02	92,110	> 8.00	\$115,137	> 10.00%
Tier 1 Capital (to risk-weighted assets)						
Company	166,996	14.42	46,338	> 4.00	N/A	N/A
First Mid Bank	159,309	13.84	46,055	> 4.00	69,082	> 6.00
Tier 1 Capital (to average assets)						
Company	166,996	10.52	63,493	> 4.00	N/A	N/A
First Mid Bank	159,309	10.08	63,210	> 4.00	79,012	> 5.00

The Company's risk-weighted assets, capital and capital ratios for September 30, 2015 are computed in accordance with Basel III capital rules which were effective January 1, 2015. Prior periods are computed following previous rules. See heading "Basel III" in the Overview section of this report for a more detailed description of the Basel III rules. As of September 30, 2015, both the Company and First Mid Bank had capital ratios above the required minimums for regulatory capital adequacy, and First Mid Bank had capital ratios that qualified it for treatment as well-capitalized under the regulatory framework for prompt corrective action with respect to banks. The decrease in capital ratios from December 31, 2014 is primarily due to additional assets from the acquisition partially offset by the capital raise completed by the Company during the second quarter of 2015.

Stock Plans

Participants may purchase Company stock under the following four plans of the Company: the Deferred Compensation Plan, the First Retirement and Savings Plan, the Dividend Reinvestment Plan, and the SI Plan. For more detailed information on these plans, refer to the Company's Annual Report on Form 10-K for the year ended

December 31, 2014.

At the Annual Meeting of Stockholders held May 23, 2007, the stockholders approved the SI Plan. The SI Plan was implemented to succeed the Company's 1997 Stock Incentive Plan, which had a ten-year term that expired October 21, 2007. The SI Plan is intended to provide a means whereby directors, employees, consultants and advisors of the Company and its Subsidiaries may sustain a sense of proprietorship and personal involvement in the continued development and financial success of the Company and its Subsidiaries, thereby advancing the interests of the Company and its stockholders. Accordingly, directors and selected employees, consultants and advisors may be provided the opportunity to acquire shares of Common Stock of the Company on the terms and conditions established in the SI Plan.

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

A maximum of 300,000 shares of common stock may be issued under the SI Plan. As of September 30, 2015, the Company had awarded 59,500 shares as stock options under the SI plan. There were no stock options granted in 2015 or 2014. The Company awarded 16,604 shares and 14,770 shares during 2015 and 2014, respectively, as 50% Stock Awards and 50% Stock Unit Awards under the SI plan.

Stock Repurchase Program

Since August 5, 1998, the Board of Directors has approved repurchase programs pursuant to which the Company may repurchase a total of approximately \$76.7 million of the Company's common stock. The repurchase programs approved by the Board of Directors are as follows:

- On August 5, 1998, repurchases of up to 3%, or \$2 million, of the Company's common stock.
- In March 2000, repurchases up to an additional 5%, or \$4.2 million of the Company's common stock.
- In September 2001, repurchases of \$3 million of additional shares of the Company's common stock.
- In August 2002, repurchases of \$5 million of additional shares of the Company's common stock.
- In September 2003, repurchases of \$10 million of additional shares of the Company's common stock.
- On April 27, 2004, repurchases of \$5 million of additional shares of the Company's common stock.
- On August 23, 2005, repurchases of \$5 million of additional shares of the Company's common stock.
- On August 22, 2006, repurchases of \$5 million of additional shares of the Company's common stock.
- On February 27, 2007, repurchases of \$5 million of additional shares of the Company's common stock.
- On November 13, 2007, repurchases of \$5 million of additional shares of the Company's common stock.
- On December 16, 2008, repurchases of \$2.5 million of additional shares of the Company's common stock.
- On May 26, 2009, repurchases of \$5 million of additional shares of the Company's common stock.
- On February 22, 2011, repurchases of \$5 million of additional shares of the Company's common stock.
- On November 13, 2012, repurchases of \$5 million of additional shares of the Company's common stock.
- On November 19, 2013, repurchases of \$5 million additional shares of the Company's common stock.
- On October 28, 2014, repurchases of \$5 million additional shares of the Company's common stock.

During the nine months ended September 30, 2015, the Company repurchased 52,145 shares at a total cost of approximately \$1,041,000. Since 1998, the Company has repurchased a total of 2,041,892 shares at a total price of approximately \$69,509,000. As of September 30, 2015, the Company is authorized per all repurchase programs to purchase \$7,198,000 in additional shares.

Liquidity

Liquidity represents the ability of the Company and its subsidiaries to meet all present and future financial obligations arising in the daily operations of the business. Financial obligations consist of the need for funds to meet extensions of credit, deposit withdrawals and debt servicing. The Company's liquidity management focuses on the ability to obtain funds economically through assets that may be converted into cash at minimal costs or through other sources. The Company's other sources of cash include overnight federal fund lines, Federal Home Loan Bank advances, deposits of the State of Illinois, the ability to borrow at the Federal Reserve Bank of Chicago, and the Company's operating line of credit with The Northern Trust Company. Details for the sources include:

First Mid Bank has \$35 million available in overnight federal fund lines, including \$10 million from U.S. Bank, N.A., \$10 million from Wells Fargo Bank, N.A. and \$15 million from The Northern Trust Company. Availability of the funds is subject to First Mid Bank meeting minimum regulatory capital requirements for total capital to risk-weighted assets and Tier 1 capital to total average assets. As of September 30, 2015, First Mid Bank met these regulatory requirements.

First Mid Bank can borrow from the Federal Home Loan Bank as a source of liquidity. Availability of the funds is subject to the pledging of collateral to the Federal Home Loan Bank. Collateral that can be pledged includes one-to-four family residential real estate loans and securities. At September 30, 2015, the excess collateral at the FHLB would support approximately \$126.0 million of additional advances.

First Mid Bank is a member of the Federal Reserve System and can borrow funds provided that sufficient collateral is pledged.

In addition, as of September 30, 2015, the Company had a revolving credit agreement in the amount of \$15 million with The Northern Trust Company with an outstanding balance of \$0 million and \$15 million in available funds. This loan was renewed on April 17, 2015 for one year as a revolving credit agreement. The interest rate is floating at 2.25% over the federal funds rate. The loan is unsecured and subject to a borrowing agreement containing requirements for the Company and First Mid Bank, including requirements for operating and capital ratios. The Company and its subsidiary bank were in compliance with the then existing covenants at September 30, 2015 and 2014 and December 31, 2014.

Management continues to monitor its expected liquidity requirements carefully, focusing primarily on cash flows from:

- lending activities, including loan commitments, letters of credit and mortgage prepayment assumptions;
- deposit activities, including seasonal demand of private and public funds;
- investing activities, including prepayments of mortgage-backed securities and call provisions on U.S. Treasury and government agency securities; and
- operating activities, including scheduled debt repayments and dividends to stockholders.

71

The following table summarizes significant contractual obligations and other commitments at September 30, 2015 (in thousands):

	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Time deposits	\$255,904	\$175,525	\$56,722	\$22,400	\$1,257
Debt	20,620	—	—	—	20,620
Other borrowings	128,499	113,499	15,000	—	—
Operating leases	44,333	2,375	4,543	3,792	33,623
Supplemental retirement	732	100	200	132	300
	\$450,088	\$291,499	\$76,465	\$26,324	\$55,800

For the nine months ended September 30, 2015, net cash of \$12.3 million, 137.9 million and \$13.6 million was provided from operating activities, investing activities, and financing activities, respectively. In total, cash and cash equivalents increased by \$163.7 million since year-end 2014.

Off-Balance Sheet Arrangements

First Mid Bank enters into financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include lines of credit, letters of credit and other commitments to extend credit. Each of these instruments involves, to varying degrees, elements of credit, interest rate and liquidity risk in excess of the amounts recognized in the consolidated balance sheets. The Company uses the same credit policies and requires similar collateral in approving lines of credit and commitments and issuing letters of credit as it does in making loans. The exposure to credit losses on financial instruments is represented by the contractual amount of these instruments. However, the Company does not anticipate any losses from these instruments.

The off-balance sheet financial instruments whose contract amounts represent credit risk at September 30, 2015 and December 31, 2014 were as follows (in thousands):

	September 30, 2015	December 31, 2014
Unused commitments and lines of credit:		
Commercial real estate	\$39,175	\$32,927
Commercial operating	162,790	133,884
Home equity	33,070	23,285
Other	59,434	47,498
Total	\$294,469	\$237,594
Standby letters of credit	\$7,465	\$5,193

The increase in 2015 was primarily due to additional outstanding commitments resulting from the acquisition of the twelve ONB Branches. Commitments to originate credit represent approved commercial, residential real estate and home equity loans that generally are expected to be funded within ninety days. Lines of credit are agreements by which the Company agrees to provide a borrowing accommodation up to a stated amount as long as there is no violation of any condition established in the loan agreement. Both commitments to originate credit and lines of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the lines and some commitments are expected to expire without being drawn upon, the total amounts do not necessarily represent future cash requirements.

Standby letters of credit are conditional commitments issued by the Company to guarantee the financial performance of customers to third parties. Standby letters of credit are primarily issued to facilitate trade or support borrowing arrangements and generally expire in one year or less. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending credit facilities to customers. The maximum amount of credit that would be extended under letters of credit is equal to the total off-balance sheet contract amount of such instrument.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There has been no material change in the market risk faced by the Company since December 31, 2014. For information regarding the Company's market risk, refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

ITEM 4. CONTROLS AND PROCEDURES

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's "disclosure controls and procedures" (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), as of the end of the period covered by this report. Based on such evaluation, such officers have concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures are effective. Further, there have been no changes in the Company's internal control over financial reporting during the last fiscal quarter that have materially affected or that are reasonably likely to affect materially the Company's internal control over financial reporting.

PART II

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 1A. RISK FACTORS

Various risks and uncertainties, some of which are difficult to predict and beyond the Company's control, could negatively impact the Company. As a financial institution, the Company is exposed to interest rate risk, liquidity risk, credit risk, operational risk, risks from economic or market conditions, and general business risks among others. Adverse experience with these or other risks could have a material impact on the Company's financial condition and results of operations, as well as the value of its common stock. See the risk factors and "Supervision and Regulation" described in the Company's Annual Report on Form 10-K for the year ended December 31, 2014 and in the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2015.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS
ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
--------	---	--	--	--

Explanation of Responses:

Edgar Filing: CORNERSTONE BANCORP INC - Form 4/A

July 1, 2015 - July 31, 2015	0	\$0.00	0	\$7,276,000
August 1, 2015 - August 31, 2015	3,600	\$21.74	3,600	\$7,198,000
September 1, 2015 - September 30, 2015	1	\$17.00	1	\$7,198,000
Total	3,601	\$19.37	3,601	\$7,198,000

See heading "Stock Repurchase Program" for more information regarding stock purchases.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

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

74

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FIRST MID-ILLINOIS BANCSHARES, INC.
(Registrant)

Date: November 6, 2015

Joseph R. Dively
President and Chief Executive Officer

Michael L. Taylor
Chief Financial Officer

Exhibit Index to Quarterly Report on Form 10-Q

Exhibit Number Description and Filing or Incorporation Reference

2.1 First Amendment to Branch Purchase and Assumption Agreement between First Mid-Illinois Bank & Trust, N.A. and Old National Bank, dated August 14, 2015 (incorporated by reference to Exhibit 2.2 to the Company's Current Report on Form 8-K/A filed October 23, 2015).

4.1 The Registrant agrees to furnish to the Commission, upon request, a copy of each instrument with respect to issues of long-term debt involving a total amount which does not exceed 10% of the total assets of the Registrant and its subsidiaries on a consolidated basis

11.1 Statement re: Computation of Earnings Per Share (Filed herewith on page 12)

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

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

32.1 Certification pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002

32.2 Certification pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002

101 The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2015, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheets at September 30, 2015 and December 31, 2014, (ii) the Consolidated Statements of Income for the three and nine months ended September 30, 2015 and 2014, (iii) the Consolidated Statements of Cash Flows for the nine months ended September 30, 2015 and 2014, and (iv) the Notes to Consolidated Financial Statements.

76