HEARTLAND FINANCIAL USA INC
Form 10-Q
November 09, 2016

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

FORM 10-Q
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For quarterly period ended September 30, 2016

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

For transition period __________ to __________

Commission File Number: 001-15393

HEARTLAND FINANCIAL USA, INC.
(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

42-1405748
(I.R.S. employer identification number)

1398 Central Avenue, Dubuque, Iowa 52001
(Address of principal executive offices)(Zip Code)

(563) 589-2000
(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes x No o

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “accelerated filer,” “large accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Act.

Large accelerated filer ¨ Accelerated Filer x

Non-accelerated filer ¨ Smaller reporting company ¨
(Do not check if a smaller reporting company)

Indicate by check mark whether the Registrant is a shell company (as defined by Rule 12b-2 of the Securities Exchange Act of 1934). Yes o No x

Indicate the number of shares outstanding of each of the classes of Registrant's common stock as of the latest practicable date: As of November 8, 2016, the Registrant had outstanding 26,062,541 shares of common stock, $1.00 par value per share.

HEARTLAND FINANCIAL USA, INC.
Form 10-Q Quarterly Report
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PART I

ITEM 1. FINANCIAL STATEMENTS

HEARTLAND FINANCIAL USA, INC.
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except per share data)

	September 30, 2016 (Unaudited)	December 31, 2015
ASSETS		
Cash and due from banks	$ 196,234	$ 237,841
Federal funds sold and other short-term investments	5,855	20,958
Cash and cash equivalents	202,089	258,799
Time deposits in other financial institutions	2,105	2,355
Securities:		
Available for sale, at fair value (cost of $1,652,938 at September 30, 2016, and $1,584,703 at December 31, 2015)	1,655,696	1,578,434
Held to maturity, at cost (fair value of $284,948 at September 30, 2016, and $294,513 at December 31, 2015)	265,302	279,117
Other investments, at cost	22,082	21,443
Loans held for sale	78,317	74,783
Loans receivable:		
Held to maturity	5,438,715	5,001,486
Allowance for loan losses	(54,653)	(48,685)
Loans receivable, net	5,384,062	4,952,801
Premises, furniture and equipment, net	162,207	146,259
Premises, furniture and equipment held for sale	3,634	3,889
Other real estate, net	10,740	11,524
Goodwill	127,699	97,852
Core deposit intangibles, net	23,922	22,019
Servicing assets, net	35,906	34,926
Cash surrender value on life insurance	112,060	110,297
Other assets	116,394	100,256
TOTAL ASSETS	$ 8,202,215	$ 7,694,754
LIABILITIES AND EQUITY		
LIABILITIES:		
Deposits:		
Demand	$ 2,238,736	$ 1,914,141
Savings	3,753,300	3,367,479
Time	920,657	1,124,203
Total deposits	6,912,693	6,405,823
Short-term borrowings	214,105	293,898
Other borrowings	294,493	263,214
Accrued expenses and other liabilities	76,536	68,646
TOTAL LIABILITIES	7,497,827	7,031,581
STOCKHOLDERS' EQUITY:		
Series C Senior Non-Cumulative Perpetual Preferred Stock (par value $1 per share; 0 shares and 81,698 shares outstanding at September 30, 2016, and December 31, 2015,	—	81,698

respectively)		
Series D Senior Non-Cumulative Perpetual Convertible Preferred Stock (par value $1 per share; 3,000 shares authorized and 1,078 shares issued and outstanding at September 30, 2016; 0 shares authorized, issued and outstanding at December 31, 2015)	1,357	—
Common stock (par value $1 per share; 30,000,000 shares authorized at both September 30, 2016, and December 31, 2015; issued 24,683,277 shares at September 30, 2016, and 22,435,693 shares at December 31, 2015)	24,683	22,436
Capital surplus	279,316	216,436
Retained earnings	402,179	348,630
Accumulated other comprehensive income (loss)	(3,079)	(6,027)
Treasury stock at cost (1,897 shares at September 30, 2016, and 0 shares at December 31, 2015)	(68)	—
TOTAL STOCKHOLDERS' EQUITY	704,388	663,173
TOTAL LIABILITIES AND EQUITY	$ 8,202,215	$ 7,694,754

See accompanying notes to consolidated financial statements.

HEARTLAND FINANCIAL USA, INC.
CONSOLIDATED STATEMENTS OF INCOME (Unaudited)
(Dollars in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
INTEREST INCOME:				
Interest and fees on loans	$70,046	$58,328	$208,280	$167,201
Interest on securities:				
Taxable	7,917	5,858	24,604	19,729
Nontaxable	3,717	3,077	10,793	8,867
Interest on federal funds sold	1	1	12	3
Interest on interest bearing deposits in other financial institutions	6	4	13	11
TOTAL INTEREST INCOME	81,687	67,268	243,702	195,811
INTEREST EXPENSE:				
Interest on deposits	4,001	3,767	12,195	11,758
Interest on short-term borrowings	235	228	1,083	638
Interest on other borrowings (includes $492 and $557 of interest expense related to derivatives reclassified from accumulated other comprehensive income for the three months ended September 30, 2016 and 2015, respectively, and $1,463 and $1,680 of interest expense related to derivatives reclassified from accumulated other comprehensive income for the nine months ended September 30, 2016 and 2015, respectively)	3,770	3,549	10,918	12,117
TOTAL INTEREST EXPENSE	8,006	7,544	24,196	24,513
NET INTEREST INCOME	73,681	59,724	219,506	171,298
Provision for loan losses	5,328	3,181	9,513	10,526
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	68,353	56,543	209,993	160,772
NONINTEREST INCOME:				
Service charges and fees	8,278	6,350	23,462	17,654
Loan servicing income	873	1,368	3,433	3,572
Trust fees	3,689	3,507	11,127	11,051
Brokerage and insurance commissions	1,006	869	2,914	2,872
Securities gains, net (includes $1,586 and $1,807 of net security gains reclassified from accumulated other comprehensive income for the three months ended September 30, 2016 and 2015, respectively, and $9,964 and $9,270 of net security gains reclassified from accumulated other comprehensive income for the nine months ended September 30, 2016 and 2015, respectively)	1,584	1,767	9,732	9,230
Net gains on sale of loans held for sale	11,459	9,823	33,794	38,164
Valuation allowance on commercial servicing rights	5	—	(41)	—
Income on bank owned life insurance	620	372	1,733	1,355
Other noninterest income	1,028	924	2,992	2,406
TOTAL NONINTEREST INCOME	28,542	24,980	89,146	86,304
NONINTEREST EXPENSES:				
Salaries and employee benefits	40,733	37,033	124,432	110,522
Occupancy	5,099	4,307	15,322	12,594
Furniture and equipment	2,746	2,121	7,301	6,403
Professional fees	5,985	5,251	20,481	16,544

FDIC insurance assessments	1,180	1,018	3,468	2,873
Advertising	1,339	1,327	4,174	3,841
Intangible assets amortization	1,291	734	4,483	2,080
Other real estate and loan collection expenses	640	496	1,871	1,714
(Gain)/loss on sales/valuations of assets, net	794	721	1,064	2,583
Other noninterest expenses	8,620	8,988	27,160	25,938
TOTAL NONINTEREST EXPENSES	68,427	61,996	209,756	185,092
INCOME BEFORE INCOME TAXES	28,468	19,527	89,383	61,984
Income taxes (includes $408 and $451 of income tax expense reclassified from accumulated other comprehensive income for the three months ended September 30, 2016 and 2015, respectively, and $3,171 and $2,816 of income tax expense reclassified from accumulated other comprehensive income for the nine months ended September 30, 2016 and 2015, respectively)	8,260	4,945	28,196	16,533
NET INCOME	20,208	14,582	61,187	45,451
Preferred dividends	(53)	(205)	(273)	(613)
Interest expense on convertible preferred debt	17	—	48	—
NET INCOME AVAILABLE TO COMMON STOCKHOLDERS	$20,172	$14,377	$60,962	$44,838
EARNINGS PER COMMON SHARE - BASIC	$0.82	$0.70	$2.51	$2.19
EARNINGS PER COMMON SHARE - DILUTED	$0.81	$0.69	$2.48	$2.16
CASH DIVIDENDS DECLARED PER COMMON SHARE	$0.10	$0.10	$0.30	$0.30

See accompanying notes to consolidated financial statements.

HEARTLAND FINANCIAL USA, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)
(Dollars in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
NET INCOME	$20,208	$14,582	$61,187	$45,451
OTHER COMPREHENSIVE INCOME				
Securities:				
Net change in unrealized gain (loss) on securities	(5,696)	2,202	18,274	10,916
Reclassification adjustment for net gains realized in net income	(1,586)	(1,807)	(9,964)	(9,270)
Net change in non-credit related other than temporary impairment	—	24	7	72
Income taxes	2,871	(169)	(3,364)	(667)
Other comprehensive income (loss) on securities	(4,411)	250	4,953	1,051
Derivatives used in cash flow hedging relationships:				
Net change in unrealized gain (loss) on derivatives	844	(3,071)	(4,623)	(3,016)
Reclassification adjustment for net losses on derivatives realized in net income	492	557	1,463	1,680
Income taxes	(517)	936	1,155	488
Other comprehensive income (loss) on cash flow hedges	819	(1,578)	(2,005)	(848)
Other comprehensive income (loss)	(3,592)	(1,328)	2,948	203
TOTAL COMPREHENSIVE INCOME	$16,616	$13,254	$64,135	$45,654

See accompanying notes to consolidated financial statements.

HEARTLAND FINANCIAL USA, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(Dollars in thousands)

	Nine Months Ended September 30,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$61,187	$45,451
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	22,975	16,325
Provision for loan losses	9,513	10,526
Net amortization of premium on securities	24,093	21,339
Securities gains, net	(9,732)	(9,230)
Stock based compensation	3,073	2,635
Write downs and losses on repossessed assets, net	1,094	1,686
Loans originated for sale	(863,354)	(1,087,510)
Proceeds on sales of loans held for sale	883,758	1,083,285
Net gains on sale of loans held for sale	(23,938)	(27,102)
Increase (decrease) in accrued interest receivable	(1,054)	170
Increase in prepaid expenses	(128)	(1,021)
Increase (decrease) in accrued interest payable	332	(177)
Capitalization of servicing rights	(9,856)	(11,766)
Valuation adjustment on commercial servicing rights	41	—
Write downs and losses on sales of assets, net	(30)	897
Other, net	(2,419)	8,137
NET CASH PROVIDED BY OPERATING ACTIVITIES	95,555	53,645
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from the sale of securities available for sale	768,617	877,077
Proceeds from the sale of securities held to maturity	4,557	—
Proceeds from the sale of other investments	4,722	12,917
Proceeds from the sale of time deposits in other financial institutions	—	2,925
Proceeds from the maturity of and principal paydowns on securities available for sale	130,549	124,084
Proceeds from the maturity of and principal paydowns on securities held to maturity	8,271	1,338
Proceeds from the maturity of and principal paydowns on time deposits in other financial institutions	250	250
Proceeds from the maturity of and principal paydowns on other investments	—	619
Purchase of securities available for sale	(888,903)	(774,657)
Purchase of other investments	(1,875)	(9,833)
Net (increase) decrease in loans	138,725	(225,356)
Purchase of bank owned life insurance policies	—	(1,100)
Proceeds from bank owned life insurance policies	111	—
Capital expenditures	(8,318)	(4,982)
Net cash and cash equivalents received (paid) in acquisitions	8,084	(6,861)
Proceeds from the sale of equipment	686	1,108
Proceeds on sale of OREO and other repossessed assets	3,266	6,328
NET CASH PROVIDED BY INVESTING ACTIVITIES	168,742	3,857

HEARTLAND FINANCIAL USA, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS, CONTINUED (Unaudited)
(Dollars in thousands)

	Nine Months Ended September 30,	
	2016	2015
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in demand deposits	160,313	191,361
Net increase (decrease) in savings deposits	51,530	(73,050)
Net decrease in time deposit accounts	(353,084)	(26,326)
Net decrease in short-term borrowings	(101,409)	(25,901)
Proceeds from short term FHLB advances	243,100	276,100
Repayments of short term FHLB advances	(257,250)	(270,000)
Proceeds from other borrowings	40,000	29,000
Repayments of other borrowings	(15,562)	(134,803)
Redemption of preferred stock	(81,698)	—
Purchase of treasury stock	(2,293)	(2,856)
Proceeds from issuance of common stock	1,863	2,330
Excess tax benefits on exercised stock options	1,121	671
Dividends paid	(7,638)	(6,794)
NET CASH USED BY FINANCING ACTIVITIES	(321,007)	(40,268)
Net increase (decrease) in cash and cash equivalents	(56,710)	17,234
Cash and cash equivalents at beginning of year	258,799	73,871
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$202,089	$91,105
Supplemental disclosures:		
Cash paid for income/franchise taxes	$16,550	$7,305
Cash paid for interest	$23,864	$24,690
Loans transferred to OREO	$1,359	$5,206
Purchases of securities available for sale, accrued, not paid	$—	$3,523
Sales of securities available for sale, accrued, not settled	$250	$—
Stock consideration granted for acquisition	$57,433	$53,052

See accompanying notes to consolidated financial statements.

HEARTLAND FINANCIAL USA, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (Unaudited)
(Dollars in thousands, except per share data)

	Heartland Financial USA, Inc. Stockholders' Equity						
	Preferred Stock	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Equity
Balance at January 1, 2015	$81,698	$18,511	$95,816	$298,764	$ 1,528	$ —	$496,317
Comprehensive income				45,451	203		45,654
Cash dividends declared:							
Series C Preferred, $7.50 per share				(613)			(613)
Common, $0.30 per share				(6,181)			(6,181)
Purchase of 54,389 shares of common stock						(2,856)	(2,856)
Issuance of 2,180,585 shares of common stock		2,129	51,162			2,762	56,053
Stock based compensation			2,635				2,635
Balance at September 30, 2015	$81,698	$20,640	$149,613	$337,421	$ 1,731	$ (94)	$591,009
Balance at January 1, 2016	$81,698	$22,436	$216,436	$348,630	$ (6,027)	$ —	$663,173
Comprehensive income				61,187	2,948		64,135
Cash dividends declared:							
Series C Preferred, $2.50 per share				(168)			(168)
Series D Preferred, $35.00 per share				(105)			(105)
Common, $0.30 per share				(7,365)			(7,365)
Redemption of Series C preferred stock	(81,698)						(81,698)
Issuance of Series D preferred stock	3,777						3,777
Redemption of Series D preferred stock	(2,420)						(2,420)
Purchase of 49,785 shares of common stock						(2,293)	(2,293)
Issuance of 2,295,472 shares of common stock		2,247	59,807			2,225	64,279
Stock based compensation			3,073				3,073
Balance at September 30, 2016	$1,357	$24,683	$279,316	$402,179	$ (3,079)	$ (68)	$704,388

See accompanying notes to consolidated financial statements.

HEARTLAND FINANCIAL USA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: BASIS OF PRESENTATION

The interim unaudited consolidated financial statements contained herein should be read in conjunction with the audited consolidated financial statements and accompanying notes to the consolidated financial statements for the fiscal year ended December 31, 2015, included in the Form 10-K of Heartland Financial USA, Inc. ("Heartland") filed with the Securities and Exchange Commission ("SEC") on March 11, 2016. Accordingly, footnote disclosures which would substantially duplicate the disclosure contained in the audited consolidated financial statements have been omitted.

The financial information of Heartland included herein has been prepared in accordance with U.S. generally accepted accounting principles for interim financial reporting and has been prepared pursuant to the rules and regulations for reporting on Form 10-Q and Rule 10-01 of Regulation S-X. Such information reflects all adjustments (consisting of normal recurring adjustments), that are, in the opinion of management, necessary for a fair presentation of the financial position and results of operations for the periods presented. The results of the interim period ended September 30, 2016, are not necessarily indicative of the results expected for the year ending December 31, 2016.

Earnings Per Share

Basic earnings per share is determined using net income available to common stockholders and weighted average common shares outstanding. Diluted earnings per share is computed by dividing net income available to common stockholders by the weighted average common shares and assumed incremental common shares issued. Amounts used in the determination of basic and diluted earnings per share for the three- and nine-month periods ended September 30, 2016 and 2015, are shown in the table below:

	Three Months Ended September 30,	
(Dollars and number of shares in thousands, except per share data)	2016	2015
Net income attributable to Heartland	$20,208	$14,582
Preferred dividends and discount	(53)	(205)
Interest expense on convertible preferred debt	17	—
Net income available to common stockholders	$20,172	$14,377
Weighted average common shares outstanding for basic earnings per share	24,601	20,620
Assumed incremental common shares issued upon exercise of stock options and non-vested restricted stock units	322	273
Weighted average common shares for diluted earnings per share	24,923	20,893
Earnings per common share — basic	$0.82	$0.70
Earnings per common share — diluted	$0.81	$0.69
Number of antidilutive common stock equivalents excluded from diluted earnings per share computation	—	—

	Nine Months Ended September 30,	
(Dollars and number of shares in thousands, except per share data)	2016	2015
Net income attributable to Heartland	$61,187	$45,451
Preferred dividends	(273)	(613)

Interest expense on convertible preferred debt	48	—
Net income available to common stockholders	$60,962	$44,838
Weighted average common shares outstanding for basic earnings per share	24,262	20,483
Assumed incremental common shares issued upon exercise of stock options and non-vested restricted stock units	319	269
Weighted average common shares for diluted earnings per share	24,581	20,752
Earnings per common share — basic	$2.51	$2.19
Earnings per common share — diluted	$2.48	$2.16
Number of antidilutive common stock equivalents excluded from diluted earnings per share computation	—	—

Stock-Based Compensation

Heartland may grant, through its Nominating and Compensation Committee (the "Compensation Committee"), non-qualified and incentive stock options, stock appreciation rights, stock awards, restricted stock, restricted stock units and cash incentive awards, under its 2012 Long-Term Incentive Plan (the "Plan"). The Plan was originally approved by stockholders in May 2012 and was amended effective March 8, 2016, to increase the number of shares of common stock authorized for issuance and make certain other changes to the Plan. As of September 30, 2016, 549,144 shares of common stock were available for issuance under future awards that may be granted under the Plan to employees and directors of, and service providers to, Heartland or its subsidiaries.

Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 718, "Compensation-Stock Compensation" requires the measurement of the cost of employee services received in exchange for an award of equity instruments based upon the fair value of the award on the grant date. The cost of the award is based upon its fair value estimated on the date of grant and recognized in the consolidated statements of income over the vesting period of the award. The fair market value of restricted stock and restricted stock units is based on the fair value of the underlying shares of common stock on the date of grant. The fair value of stock options is estimated on the date of grant using the Black-Scholes model.

The amount of tax benefit related to the exercise, vesting, and forfeiture of equity-based awards reflected in additional paid-in-capital, not taxes payable, was $1.1 million and $671,000 during the nine months ended September 30, 2016 and 2015, respectively.

Restricted Stock Units

The Plan permits the Compensation Committee to grant restricted stock units ("RSUs"). In the first quarter of 2016, the Compensation Committee granted time-based RSUs with respect to 72,644 shares of common stock, and in the first quarter of 2015, the Compensation Committee granted time-based RSUs with respect to 78,220 shares of common stock to selected officers. The time-based RSUs represent the right, without payment, to receive shares of Heartland common stock at a specified date in the future. The time-based RSUs granted in 2016 vest over three years in equal installments on the first, second and third anniversaries of the grant date. The time-based RSUs granted in 2015 vest over five years in equal installments on the third, fourth, and fifth anniversaries of the grant date. The time-based RSUs will be settled in common stock upon vesting, and will not be entitled to dividends until vested. The time-based RSUs may also vest upon death or disability, upon a change in control or upon a "qualified retirement" (as defined in the RSU agreement). The retiree is required to sign a non-solicitation and non-compete agreement as a condition to vesting.

In addition to the time-based RSUs referenced in the preceding paragraph, the Compensation Committee granted performance-based RSUs with respect to 35,516 shares of common stock in the first quarter of 2016, and 39,075 shares of common stock in the first quarter of 2015. These performance-based RSUs are earned based on satisfaction of performance targets for the fiscal years ended December 31, 2016, and December 31, 2015, respectively, and then fully vest two years after the end of the performance period. For the grants awarded in 2016, the portion of the RSUs earned based on performance vests on December 31, 2018, and for the grants awarded in 2015, the portion of the RSUs earned based on performance vests on December 31, 2017, subject to employment on the respective vesting dates. The performance-based RSUs vest to the extent that they are earned upon death or disability, upon a change in control or upon a "qualified retirement."

The Compensation Committee also granted performance-based RSUs with respect to 11,408 shares of common stock in the first quarter of 2016. These performance-based RSUs will be earned based on satisfaction of performance targets for the three-year performance period ended December 31, 2018. These performance-based RSUs will vest in

2019 after measurement of performance in relation to the performance targets.

Upon death, disability, or a "qualified retirement," all performance-based RSUs granted in 2016 remain outstanding and are earned based on actual performance at the end of each performance period. All RSUs granted on or after March 8, 2016, become fully vested upon a change in control if (1) they are not assumed by the successor corporation or (2) upon an involuntary termination of the participant's employment within two years after the change in control.

The Compensation Committee also grants RSUs under the Plan to directors as part of their compensation, to new management level employees at commencement of employment, and to other employees and service providers as incentives. During the nine months ended September 30, 2016, and September 30, 2015, 24,153 and 22,648 RSUs, respectively, were granted to directors and new employees.

A summary of the RSUs outstanding as of September 30, 2016 and 2015, and changes during the nine months ended September 30, 2016 and 2015, follows:

	2016		2015	
	Shares	Weighted-Average Grant Date Fair Value	Shares	Weighted-Average Grant Date Fair Value
Outstanding at January 1	353,195	$ 25.53	396,555	$ 21.48
Granted	143,721	29.75	139,943	28.90
Vested	(117,898)	23.44	(151,681)	17.98
Forfeited	(11,547)	27.12	(15,636)	25.08
Outstanding at September 30	367,471	$ 27.60	369,181	$ 25.56

Total compensation costs recorded for RSUs were $3.1 million and $2.6 million for the nine-month periods ended September 30, 2016 and 2015. As of September 30, 2016, there were $3.7 million of total unrecognized compensation costs related to the Plan for RSUs that are expected to be recognized through 2019.

Options

Although the Plan provides authority to the Compensation Committee to grant stock options, no options were granted during the first nine months of 2016 and 2015. Prior to 2009, options were typically granted annually with an expiration date ten years after the date of grant. Vesting was generally over a five-year service period with equal portions of a grant becoming exercisable at three years, four years, and five years after the date of grant. A summary of the stock options outstanding as of September 30, 2016 and 2015, and changes during the nine months ended September 30, 2016 and 2015, follows:

	2016		2015	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at January 1	125,950	$ 24.08	215,851	$ 23.85
Granted	—	—	—	—
Exercised	(55,250)	24.82	(81,401)	23.34
Forfeited	(1,500)	21.10	(3,250)	23.51
Outstanding at September 30	69,200	$ 23.55	131,200	$ 24.15
Options exercisable at September 30	69,200	$ 23.55	131,200	$ 24.15

At September 30, 2016, the vested options totaled 69,200 shares with a weighted average exercise price of $23.55 per share and a weighted average remaining contractual life of 0.86 years. The intrinsic value (the difference between the market price and the aggregate exercise price) for the vested options as of September 30, 2016, was $866,000. The intrinsic value for the total of all options exercised during the nine months ended September 30, 2016, was $486,000.

The exercise price of stock options granted is established by the Compensation Committee, but the exercise price for the stock options may not be less than the fair market value of the shares on the date that the option is granted or, if greater, the par value of a share of stock. Each option granted is exercisable in full at any time or from time to time, subject to vesting provisions, as determined by the Compensation Committee and as provided in the option agreement, but such time may not exceed ten years from the grant date. Cash received from options exercised was $1.4 million for the nine months ended September 30, 2016, and $1.9 million for the nine months ended September 30, 2015.

Total compensation costs recorded for options were $0 for both the nine month periods ended September 30, 2016 and 2015. There are no unrecorded compensation costs related to options at September 30, 2016. No stock options vested during the nine-month periods ended September 30, 2016 and 2015.

Subsequent Events

On October 29, 2016, Heartland entered into a definitive merger agreement providing for the acquisition of Founders Bancorp, parent company of Founders Community Bank, based in San Luis Obispo, California. The transaction is valued at approximately $29.1 million, subject to adjustment. Of the merger consideration, 70% will be in the form of shares of Heartland common stock, and 30% will be in cash. As of September 30, 2016, Founders Community Bank had total assets of $198.5 million, which includes gross loans of $106.6 million and total deposits of $180.5 million. The closing of the acquisition is subject to customary closing conditions, including approvals by the Founders Bancorp shareholders and banking regulators, and is expected to occur in the first quarter of 2017. Simultaneous with the close, Founders Community Bank will be merged into Heartland's Premier Valley Bank subsidiary. Heartland expects the acquisition to be accretive to its earning per share during 2018.

On November 2, 2016, Heartland commenced a public offering of 1,379,690 shares of its common stock at $36.24 per share, and the offering closed on November 8, 2016. The offering resulted in net proceeds of approximately $49.7 million after deducting estimated offering expenses payable by Heartland. All of the shares of common stock included in the offering are primary shares. Heartland intends to use the net proceeds from this offering for general corporate purposes, which may include, among other things, working capital, debt repayment or financing potential acquisitions.

The interim unaudited consolidated financial statements contained herein cover results for the quarter ended September 30, 2016, and as a result, the effects of these transactions are excluded from the financial results and financial position of Heartland disclosed herein.

Effect of New Financial Accounting Standards

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers." The amendment clarifies the principles for recognizing revenue and develops a common revenue standard. The amendment outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that “an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.” In applying the revenue model to contracts within its scope, an entity should apply the following steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, and (v) recognize revenue when (or as) the entity satisfies a performance obligation. The amendment applies to all contracts with customers except those that are within the scope of other topics in the FASB Codification. The standard also requires significantly expanded disclosures about revenue recognition. The amendment is effective for annual reporting periods beginning after December 15, 2017 (including interim reporting periods within those periods). Early application is not permitted. Heartland intends to adopt the accounting standard during the first quarter of 2018, as required, and is currently evaluating the impact on its results of operations, financial position, and liquidity.

In November 2014, the FASB issued ASU 2014-16, "Derivatives and Hedging (Topic 815): Determining Whether a Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share is More Akin to Debt or to Equity." The amendment clarifies how current guidance should be interpreted in evaluating the characteristics and risks of a host contract in a hybrid financial instrument issued in the form of a share. One criterion requires evaluating whether the nature of the host contract is more akin to debt or to equity and whether the economic characteristics and risks of the embedded derivative feature are "clearly and closely related" to the host contract. In making that evaluation, an issuer or investor must consider all terms and features in a hybrid financial instrument including the embedded derivative feature that is being evaluated for separate accounting or may consider all terms and features in the hybrid financial instrument except for the embedded derivative feature that is being evaluated for separate accounting. This ASU is effective for annual periods and interim periods within those annual periods beginning after December 15, 2015, with early adoption permitted. Heartland adopted this standard on January 1, 2016, and the adoption of this standard did not have a material impact on its results of operations, financial position, and liquidity.

In January 2015, the FASB issued ASU 2015-01, "Income Statement-Extraordinary and Unusual Items." The amendment eliminates from U.S. GAAP the concept of extraordinary items. Presently, an event or transaction is presumed to be an ordinary and usual activity of the reporting entity unless evidence clearly supports its classification as an extraordinary item. If an event or transaction meets the criteria for extraordinary classification, an entity is required to segregate the extraordinary item from the results of ordinary operations and show the item separately in the income statement, net of tax, after income from continuing operations. This amended guidance will prohibit separate disclosure of extraordinary items in the income statement. This amendment is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Entities may apply the amendment prospectively or retrospectively to all prior periods presented in the financial statements. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. Heartland adopted this standard on January 1, 2016, and the adoption of this standard did not have a material impact on the results of operations, financial position, and liquidity.

In April 2015, the FASB issued ASU 2015-05, "Intangibles-Goodwill and Other-Internal-Use Software." The amendment intends to provide guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The guidance will not change GAAP for a customer's accounting for service contracts. As a result, all software licenses within the scope of this guidance will be accounted for consistently with other licenses of intangible assets. This amendment is effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Entities can elect to adopt the standard either retrospectively or prospectively to all cloud computing arrangements entered into or materially modified after the adoption date. Early adoption is permitted. Heartland adopted this standard on January 1, 2016, and the adoption did not have a material impact on the results of operations, financial position, and liquidity.

In September 2015, the FASB issued ASU 2015-16, "Simplifying the Accounting for Measurement-Period Adjustments." The amendment eliminates the requirement of Topic 805, Business Combinations, to retrospectively adjust the financial statements for measurement-period adjustments that occur in periods after a business combination is consummated. Measurement-period adjustments are calculated as if they were known at the acquisition date, but are recognized in the reporting period in which they are determined. Prior period information is not revised. Additional disclosures are required about the impact on current period income statement line items of adjustments that would have been recognized in prior periods if prior period information had been revised. This amendment is effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is permitted if financial statements have not been issued. Heartland adopted this standard effective September 30, 2015. The adoption of this standard did not have a material impact on the results of operations, financial position, and liquidity.

In January 2016, the FASB issued guidance ASU 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities." The amendments in ASU 2016-01 to Subtopic 825-10, Financial Instruments, contain the following elements: (1) requires equity investments to be measured at fair value with changes in fair value recognized in net income; (2) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; (3) eliminates the requirement for public entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; (4) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (5) requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; (6) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or accompanying notes to the financial statements; (7) clarifies that the entity should evaluate the need for a valuation allowance on a deferred tax asset related to available for sale securities in combination with the entity's other deferred tax assets. The amendments are effective for fiscal years beginning after December 15, 2017, and for interim periods within those fiscal years. Except for the early application of the amendment noted in item (5) above, early adoption of the amendments in this update is not permitted. Heartland intends to adopt the accounting standard in 2018, as required, and is currently evaluating the potential impact of this guidance on its results of operations, financial position, and liquidity.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)." Topic 842 requires a lessee to recognize a lease liability and a right of use asset for each lease, with the exception of short term leases, at the commencement date of the lease and disclose key information about the leasing arrangement. Accounting requirements applied by lessors is largely unchanged. The amendment is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, and will be applied on a modified retrospective basis. Heartland intends to adopt the accounting standard in 2019, as required, and is currently evaluating the potential impact of this guidance on its results of operations, financial position, and liquidity.

In March 2016, the FASB issued ASU 2016-09, "Compensation-Stock Compensation (Topic 718)." The amendments in this ASU simplify several aspects of the accounting for share-based payments, including income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. The amendments in this ASU are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted for any interim or annual period prior to the effective date. An entity that elects early adoption must adopt all of the amendments in the same period. Heartland intends to adopt this ASU in 2017, as required, and is currently evaluating the potential impact of this guidance on its results of operations, financial position, and liquidity.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments - Credit Losses (Topic 326)." The amendments in this ASU require a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset(s) to present the net carrying value at the amount expected to be collected on the financial asset. The amendments in this ASU indicate that an entity should not use the length of time a security has been in an unrealized loss position to avoid recording a credit loss. In addition, in determining whether a credit loss exists, the amendments in this ASU also remove the requirements to consider the historical and implied volatility of the fair value of a security and recoveries or declines in fair value after the balance sheet date. The amendment is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. An entity may adopt the amendments earlier as of the fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Heartland intends to adopt the accounting standard in 2020, as required, and is currently evaluating the potential impact of this guidance on its results of operations, financial position, and liquidity.

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230) - Classification of Certain Cash Receipts and Cash Payments." The amendments in this update address eight specific cash flow issues with the objective of reducing the existing diversity in practice. The amendment is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes the interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The amendments in this update should be applied using a retrospective transition method to each period presented. Heartland intends to adopt this ASU in 2018, as required, and is currently evaluating the potential impact on its results of operations, financial position, and liquidity.

NOTE 2: ACQUISITIONS

CIC Bancshares, Inc.
On February 5, 2016, Heartland completed the acquisition of CIC Bancshares, Inc., parent company of Centennial Bank, headquartered in Denver, Colorado. The purchase price was approximately $76.9 million, which was paid by delivery of 2,003,235 shares of Heartland common stock and cash of $15.7 million. In addition, Heartland issued a new series of convertible preferred stock with a fair value of $3.8 million and assumed convertible notes and subordinated debt totaling approximately $7.9 million. Simultaneous with the closing of the transaction, Centennial Bank merged into Heartland's Summit Bank & Trust, with the resulting institution operating under the name, Centennial Bank and Trust. As of the close date, the transaction included, at fair value, total assets of $772.6 million, total loans of $581.5 million, and total deposits of $648.1 million. The transaction was a tax-free reorganization with respect to the stock consideration received by the stockholders of CIC Bancshares, Inc.

The assets and liabilities of CIC Bancshares, Inc. were recorded on the consolidated balance sheet at estimated fair value on the acquisition date. The following table represents, in thousands, the amounts recorded on the consolidated balance sheet as of February 5, 2016:

	As of February 5, 2016
Fair value of consideration paid:	
Common Stock (2,003,235 shares)	$ 57,433
Preferred Stock (3,000 shares)	3,777
Cash	15,672
Total consideration paid	76,882
Fair value of assets acquired:	
Cash and due from banks	23,756
Securities:	
Securities available for sale	92,831
Other securities	3,486
Loans held to maturity	581,477
Premises, furniture and equipment, net	16,450
Other real estate, net	1,934
Other intangible assets, net	6,576
Other assets	16,276
Total assets	742,786
Fair value of liabilities assumed:	
Deposits	648,111
Short term borrowings	35,766
Other borrowings	7,924
Other liabilities	3,951
Total liabilities assumed	695,752
Fair value of net assets acquired	47,034
Goodwill resulting from acquisition	$ 29,848

Heartland recognized $29.8 million of goodwill in conjunction with the acquisition of CIC Bancshares, Inc., which is calculated as the excess of both the consideration exchanged and the liabilities assumed as compared to the fair value of identifiable assets acquired. Goodwill resulted from the expected operational synergies, enhanced market area, cross-selling opportunities and expanded business lines. See Note 6 for further information on goodwill.

Pro Forma Information (unaudited): The following pro forma information presents the results of operations for the years ended December 31, 2015, and December 31, 2014, as if the CIC Bancshares, Inc. acquisition occurred on January 1, 2014:

(Dollars in thousands, except per share data), unaudited	For the Years Ended	
	December 31, 2015	December 31, 2014
Net interest income	$259,531	$221,808
Net income available to common shareholders	$59,491	$41,004
Basic earnings per share	$2.63	$2.00
Diluted earnings per share	$2.58	$1.96

The above pro forma results are presented for illustrative purposes and are not intended to represent or be indicative of the actual results of operations of the merged companies that would have been achieved had the acquisition occurred at January 1, 2014, nor are they intended to represent or be indicative of future results of operations. The pro forma results do not include expected operating cost savings as a result of the acquisition. These pro forma results require significant estimates and judgments particularly with respect to valuation and accretion of income associated with the acquired loans.

Heartland incurred $551,000 of pre-tax merger related expenses in 2016 associated with the Centennial Bank acquisition. The merger expenses are reflected on the consolidated statements of income for the applicable period and are reported primarily in the categories of professional fees and other noninterest expenses.

Acquired loans were preliminarily recorded at fair value based on a discounted cash flow valuation methodology that considers, among other things, projected default rates, loss given defaults and recovery rates. No allowance for credit losses was carried over from the acquisition. The balance of nonaccrual loans on the acquisition date was $1.6 million.

Premier Valley Bank
On November 30, 2015, Heartland completed the purchase of Premier Valley Bank in Fresno, California. The purchase price was approximately $95.5 million, which was paid by delivery of 1,758,543 shares of Heartland common stock and cash of $28.5 million. The transaction included, at fair value, total assets of $692.7 million, loans of $389.8 million, and deposits of $622.7 million. Premier Valley Bank continues to operate under its current name and management team as Heartland's tenth, wholly-owned state-chartered bank. The transaction was a tax-free reorganization with respect to the stock consideration received by the stockholders of Premier Valley Bank.

Heartland recognized $41.0 million of goodwill in conjunction with the acquisition of Premier Valley Bank, which is calculated as the excess of both the consideration exchanged and the liabilities assumed as compared to the fair value of identifiable assets acquired. Goodwill resulted from the expected operational synergies, enhanced market area, cross-selling opportunities and expanded business lines. See Note 6 for further information on goodwill.

First Scottsdale Bank, N.A.
On September 11, 2015, Heartland completed the purchase of First Scottsdale Bank, N.A., in Scottsdale, Arizona, in an all cash transaction valued at approximately $17.7 million. Simultaneous with the closing of the transaction, First Scottsdale Bank, N.A., merged into Heartland's Arizona Bank & Trust subsidiary. The transaction included, at fair value, total assets of $81.2 million, loans of $54.7 million, and deposits of $65.9 million on the acquisition date.

Community Bancorporation of New Mexico, Inc.
On August 21, 2015, Heartland acquired Community Bancorporation of New Mexico, Inc., parent company of Community Bank in Santa Fe, New Mexico, in an all cash transaction valued at approximately $11.1 million. Simultaneous with the closing of the transaction, Community Bank merged into Heartland's New Mexico Bank & Trust subsidiary. The transaction included, at fair value, total assets of $166.3 million, loans of $99.5 million, and deposits of $147.4 million on the acquisition date. Also included in this transaction is one bank building with a fair value of $3.4 million that Heartland intends to sell. The bank building is part of the balance of premises, furniture and equipment held for sale on the consolidated balance sheet.

Community Banc-Corp of Sheboygan, Inc.
On January 16, 2015, Heartland completed the acquisition of Community Banc-Corp of Sheboygan, Inc., parent company of Community Bank & Trust in Sheboygan, Wisconsin. Under the terms of the merger agreement for this transaction, the aggregate purchase price was based upon 155% of the December 31, 2014, adjusted tangible book value, as defined in the merger agreement, of Community Banc-Corp of Sheboygan, Inc. The purchase price was approximately $53.1 million, which was paid by delivery of 1,970,720 shares of Heartland common stock. The transaction included, at fair value, total assets of $506.8 million, including loans of $395.0 million, and deposits of $433.9 million. Simultaneous with the close of the transaction, Community Bank & Trust merged into Heartland’s Wisconsin Bank & Trust subsidiary. The transaction was a tax-free reorganization with respect to the stock consideration received by the stockholders of Community Banc-Corp of Sheboygan, Inc.

Heartland recognized goodwill of $18.6 million in conjunction with the acquisition of Community Banc-Corp of Sheboygan, Inc., which is calculated as the excess of both the consideration exchanged and the liabilities assumed as compared to the fair value of identifiable assets acquired. See Note 6 for further information on goodwill.

NOTE 3: SECURITIES

The amortized cost, gross unrealized gains and losses, and estimated fair values of securities available for sale as of September 30, 2016, and December 31, 2015, are summarized in the table below, in thousands:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
September 30, 2016				
U.S. government corporations and agencies	$4,830	$ 125	$—	$4,955
Mortgage-backed securities	1,281,459	14,401	(20,767)	1,275,093
Obligations of states and political subdivisions	353,483	9,611	(987)	362,107
Corporate debt securities	—	—	—	—
Total debt securities	1,639,772	24,137	(21,754)	1,642,155
Equity securities	13,166	375	—	13,541
Total	$1,652,938	$ 24,512	$(21,754)	$1,655,696
December 31, 2015				
U.S. government corporations and agencies	$25,847	$ 22	$(103)	$25,766
Mortgage-backed securities	1,254,452	9,134	(20,884)	1,242,702
Obligations of states and political subdivisions	290,522	6,547	(1,087)	295,982
Corporate debt securities	740	106	—	846
Total debt securities	1,571,561	15,809	(22,074)	1,565,296
Equity securities	13,142	40	(44)	13,138
Total	$1,584,703	$ 15,849	$(22,118)	$1,578,434

At September 30, 2016, and December 31, 2015, the amortized cost of the available for sale securities is net of $0 and $237,000 of credit related other-than-temporary impairment ("OTTI"), respectively.

The amortized cost, gross unrealized gains and losses and estimated fair values of held to maturity securities as of September 30, 2016, and December 31, 2015, are summarized in the table below, in thousands:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
September 30, 2016				
Mortgage-backed securities	$—	$ —	$ —	$—
Obligations of states and political subdivisions	265,302	20,191	(545)	284,948
Total	$265,302	$ 20,191	$ (545)	$284,948
December 31, 2015				
Mortgage-backed securities	$4,369	$ 306	$ —	$4,675
Obligations of states and political subdivisions	274,748	15,595	(505)	289,838
Total	$279,117	$ 15,901	$ (505)	$294,513

At September 30, 2016, the amortized cost of the held to maturity securities is net of $0 of credit related OTTI and $0 of non-credit related OTTI. At December 31, 2015, the amortized cost of the held to maturity securities was net of $1.5 million of credit related OTTI and $40,000 of non-credit related OTTI.

Approximately 77% of Heartland's mortgage-backed securities are issuances of government-sponsored enterprises.

The amortized cost and estimated fair value of debt securities available for sale at September 30, 2016, by contractual maturity are as follows, in thousands. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without penalties.

	Amortized Cost	Estimated Fair Value
Due in 1 year or less	$1,075	$1,078
Due in 1 to 5 years	22,931	23,277
Due in 5 to 10 years	103,104	105,529
Due after 10 years	231,203	237,178
Total debt securities	358,313	367,062
Mortgage-backed securities	1,281,459	1,275,093
Equity securities	13,166	13,541
Total investment securities	$1,652,938	$1,655,696

The amortized cost and estimated fair value of debt securities held to maturity at September 30, 2016, by contractual maturity are as follows, in thousands. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without penalties.

	Amortized Cost	Estimated Fair Value
Due in 1 year or less	$3,695	$3,760
Due in 1 to 5 years	14,233	15,163
Due in 5 to 10 years	87,275	92,278
Due after 10 years	160,099	173,747
Total debt securities	265,302	284,948
Mortgage-backed securities	—	—
Total investment securities	$265,302	$284,948

As of September 30, 2016, and December 31, 2015, securities with a fair value of $792.7 million and $855.8 million, respectively, were pledged to secure public and trust deposits, short-term borrowings and for other purposes as required and permitted by law.

Gross gains and losses realized related to the sales of securities available for sale for the three- and nine-month periods ended September 30, 2016 and 2015, are summarized as follows, in thousands:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Proceeds from sales	$146,242	$351,050	$768,617	$877,077
Gross security gains	1,763	2,416	11,416	10,857
Gross security losses	177	609	1,332	1,587

The following tables summarize, in thousands, the amount of unrealized losses, defined as the amount by which cost or amortized cost exceeds fair value, and the related fair value of investments with unrealized losses in Heartland's securities portfolio as of September 30, 2016, and December 31, 2015. The investments were segregated into two categories: those that have been in a continuous unrealized loss position for less than 12 months and those that have been in a continuous unrealized loss position for 12 or more months. The reference point for determining how long an investment was in an unrealized loss position was September 30, 2015, and December 31, 2014, respectively. Securities for which Heartland has taken credit-related OTTI write-downs are categorized as being "less than 12 months" or "12 months or longer" in a continuous loss position based on the point in time that the fair value declined to below the cost basis and not the period of time since the credit-related OTTI write-down.

Securities available for sale	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
September 30, 2016						
U.S. government corporations and agencies	$—	$—	$—	$—	$—	$—
Mortgage-backed securities	575,105	(14,317)	180,406	(6,450)	755,511	(20,767)
Obligations of states and political subdivisions	70,894	(986)	253	(1)	71,147	(987)
Total debt securities	645,999	(15,303)	180,659	(6,451)	826,658	(21,754)
Equity securities	—	—	—	—	—	—
Total temporarily impaired securities	$645,999	$(15,303)	$180,659	$(6,451)	$826,658	$(21,754)
December 31, 2015						
U.S. government corporations and agencies	$22,359	$(103)	$—	$—	$22,359	$(103)
Mortgage-backed securities	724,330	(15,523)	139,562	(5,361)	863,892	(20,884)
Obligations of states and political subdivisions	68,482	(896)	7,460	(191)	75,942	(1,087)
Total debt securities	815,171	(16,522)	147,022	(5,552)	962,193	(22,074)
Equity securities	6,566	(44)	—	—	6,566	(44)
Total temporarily impaired securities	$821,737	$(16,566)	$147,022	$(5,552)	$968,759	$(22,118)

Securities held to maturity	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
September 30, 2016						
Obligations of states and political subdivisions	2,639	(276)	1,123	(269)	3,762	(545)
Total temporarily impaired securities	$2,639	$ (276)	$1,123	$ (269)	$3,762	$ (545)
December 31, 2015						
Obligations of states and political subdivisions	3,646	(12)	18,033	(493)	21,679	(505)
Total temporarily impaired securities	$3,646	$ (12)	$18,033	$ (493)	$21,679	$ (505)

Heartland reviews the investment securities portfolio on a quarterly basis to monitor its exposure to OTTI. A determination as to whether a security's decline in fair value is other-than-temporary takes into consideration numerous factors and the relative significance of any single factor can vary by security. Some factors Heartland may consider in the OTTI analysis include the length of time the security has been in an unrealized loss position, changes in security ratings, financial condition of the issuer, as well as security and industry specific economic conditions. In addition, with regard to debt securities, Heartland may also evaluate payment structure, whether there are defaulted payments or expected defaults, prepayment speeds and the value of any underlying collateral. For certain debt securities in unrealized loss positions, Heartland prepares cash flow analyses to compare the present value of cash flows expected to be collected from the security with the amortized cost basis of the security.

Heartland previously recorded $981,000 of OTTI on three private label mortgage-backed securities in March 2012. The other-than-temporary credit-related losses were $797,000 in the held to maturity category and $184,000 in the available for sale category. During 2015, Heartland recorded additional credit-related OTTI on two of the private label mortgage-backed securities that previously had OTTI credit losses. The underlying collateral on these securities experienced an increased level of defaults and a slowing of voluntary prepayments causing the present value of the forward expected cash flows, using prepayment and default vectors, to be below the amortized cost basis of the securities. Based on Heartland's evaluation, $769,000 of OTTI attributable to credit-related losses was recorded in December 2015. The credit-related OTTI was $716,000, of which $200,000 was reclassified from previous non-credit related OTTI in the held to maturity category. Credit-related OTTI was $53,000 in the available for sale category.

In the first quarter of 2016, Heartland sold the mortgage-backed securities in the held to maturity portfolio because the credit quality of the securities showed further deterioration, and it was unlikely Heartland would recover the remaining basis of the securities prior to maturity. The significant deterioration of the credit quality of these securities was inconsistent with Heartland's original intent upon purchase and classification of these held to maturity securities. The carrying value of these securities was $4.4 million, and the associated realized gross gains were $89,000, and the realized gross losses were $439,000.

The remaining unrealized losses on Heartland's mortgage-backed securities are the result of changes in market interest rates or widening of market spreads subsequent to the initial purchase of the securities. The losses are not related to concerns regarding the underlying credit of the issuers or the underlying collateral. It is expected that the securities will not be settled at a price less than the amortized cost of the investment. Because the decline in fair value is attributable to changes in interest rates or widening market spreads and not credit quality, and because Heartland has the intent and ability to hold these investments until a market price recovery or to maturity and does not believe it will be required to sell the securities before maturity, these investments are not considered other-than-temporarily impaired.

In the third quarter of 2016, Heartland sold one obligation of states and political subdivisions from the held to maturity portfolio because the credit quality of the security showed significant deterioration, and it was unlikely Heartland would recover the remaining basis of the security prior to maturity. The significant deterioration of the credit quality of this security was inconsistent with Heartland's original intent upon purchase and classification of this held to maturity security. The carrying value of this security was $503,000, and the associated gross loss was $1,500.

The remaining unrealized losses on Heartland's obligations of states and political subdivisions are the result of changes in market interest rates or widening of market spreads subsequent to the initial purchase of the securities. Management monitors the published credit ratings of these securities and the stability of the underlying municipalities. Because the decline in fair value is attributable to changes in interest rates or widening market spreads due to insurance company downgrades and not underlying credit quality, and because Heartland has the intent and ability to hold these investments until a market price recovery or to maturity and does not believe it will be required to sell the securities before maturity, these investments are not considered other-than-temporarily impaired.

There were no gross realized gains and no gross realized losses on the sale of available for sale securities with OTTI write-downs for the period ended September 30, 2016. Additionally, there were no gross realized gains and no gross realized losses on the sale of held to maturity securities with OTTI write-downs for the period ended September 30, 2016. There were no gross realized gains or losses on the sale of available for sale or held to maturity securities with OTTI write-downs for the period ended September 30, 2015.

The following table shows the detail of OTTI write-downs on debt securities included in earnings and the related changes in other accumulated comprehensive income ("AOCI") for the same securities, in thousands:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Recorded as part of gross realized losses:				
Credit related OTTI	$ —	$ —	$—	$—
Intent to sell OTTI	—	—	—	—
Total recorded as part of gross realized losses	—	—	—	—
Recorded directly to AOCI for non-credit related impairment:				
Residential mortgage backed securities	—	—	—	—
Reduction of non-credit related impairment related to security sales	—	—	(120)	—

Accretion of non-credit related impairment	—	(24)	(7)	(72)
Total changes to AOCI for non-credit related impairment	—	(24)	(127)	(72)
Total OTTI losses (accretion) recorded on debt securities, net	$ —	$ (24)	$ (127)	$ (72)

Included in other securities at September 30, 2016, and December 31, 2015, were shares of stock in each Federal Home Loan Bank (the "FHLB") of Des Moines, Chicago, Dallas, San Francisco and Topeka at an amortized cost of $14.9 million and $14.3 million, respectively.

NOTE 4: LOANS

Loans as of September 30, 2016, and December 31, 2015, were as follows, in thousands:

	September 30, 2016	December 31, 2015
Loans receivable held to maturity:		
Commercial	$ 1,295,316	$ 1,279,214
Commercial real estate	2,605,296	2,326,360
Agricultural and agricultural real estate	489,387	471,870
Residential real estate	625,965	539,555
Consumer	425,582	386,867
Gross loans receivable held to maturity	5,441,546	5,003,866
Unearned discount	(721)	(488)
Deferred loan fees	(2,110)	(1,892)
Total net loans receivable held to maturity	5,438,715	5,001,486
Allowance for loan losses	(54,653)	(48,685)
Loans receivable, net	$ 5,384,062	$ 4,952,801

Heartland has certain lending policies and procedures in place that are designed to provide for an acceptable level of credit risk. The board of directors reviews and approves these policies and procedures on a regular basis. A reporting system supplements the review process by providing management and the board with frequent reports related to loan production, loan quality, concentrations of credit, loan delinquencies, nonperforming loans and potential problem loans. Diversification in the loan portfolio is also a means of managing risk associated with fluctuations in economic conditions.

The commercial and commercial real estate loan portfolio includes a wide range of business loans, including lines of credit for working capital and operational purposes and term loans for the acquisition of equipment and real estate. Although most loans are made on a secured basis, loans may be made on an unsecured basis where warranted by the overall financial condition of the borrower. Terms of commercial business loans generally range from one to five years. Commercial loans are primarily made based on the identified cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. The collateral that Heartland requires for most of these loans is based upon the discounted market value of the collateral. The primary repayment risks of commercial loans are that the cash flow of the borrowers may be unpredictable, and the collateral securing these loans may fluctuate in value. Heartland seeks to minimize these risks in a variety of ways. The underwriting analysis includes credit verification, analysis of global cash flows, appraisals and a review of the financial condition of the borrower. Personal guarantees are frequently required as a tertiary form of repayment. In addition, when underwriting loans for commercial real estate, careful consideration is given to the property's operating history, future operating projections, current and projected occupancy, location and physical condition. Heartland also utilizes government guaranteed lending through the U.S. Small Business Administration and the U.S. Department of Agriculture's Rural Development Business and Industry Program to assist customers with longer-term funding and to reduce risk.

Agricultural loans, many of which are secured by crops, machinery and real estate, are provided to finance capital improvements and farm operations as well as acquisitions of livestock and machinery. Agricultural loans present unique credit risks relating to adverse weather conditions, loss of livestock due to disease or other factors, declines in market prices for agricultural products and the impact of government regulations. The ultimate repayment of agricultural loans is dependent upon the profitable operation or management of the agricultural entity. In underwriting agricultural loans, lending personnel work closely with their customers to review budgets and cash flow projections for the ensuing crop year. These budgets and cash flow projections are monitored closely during the year and reviewed with the customers at least annually. Lending personnel also work closely with governmental agencies, including the Farm Service Agency, to help agricultural customers obtain credit enhancement products such as loan guarantees or interest assistance.

Heartland originates first-lien, adjustable-rate and fixed-rate, one-to-four-family residential real estate loans for the construction, purchase or refinancing of a single family residential property. These loans are principally collateralized by owner-occupied properties and are amortized over 10 to 30 years. Heartland typically sells longer-term, low-rate, residential mortgage loans in the secondary market with servicing rights retained. This practice allows Heartland to better manage interest rate risk and liquidity risk. The Heartland bank subsidiaries participate in lending programs sponsored by U.S. government agencies such as Veterans Administration and Federal Home Administration when justified by market conditions. As of September 30, 2016, Heartland had $1.5 million of loans secured by residential real estate property that were in the process of foreclosure.

Consumer lending includes motor vehicle, home improvement, home equity and small personal credit lines. Consumer loans typically have shorter terms, lower balances, higher yields and higher risks of default than one-to-four-family residential mortgage loans. Consumer loan collections are dependent on the borrower's continuing financial stability, and are therefore more likely to be affected by adverse personal circumstances. Risk is reduced through underwriting criteria, which include credit verification, appraisals, a review of the borrower's financial condition, and personal cash flows. A security interest, with title insurance when necessary, is taken in the underlying real estate. Heartland's consumer finance subsidiaries, Citizens Finance Co. and Citizens Finance of Illinois Co., typically lend to borrowers with past credit problems or limited credit histories, and these loans comprise approximately 19% of Heartland's total consumer loan portfolio.

Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. Heartland’s policy is to discontinue the accrual of interest income on any loan when, in the opinion of management, there is a reasonable doubt as to the timely collection of the interest and principal, normally when a loan is 90 days past due. When interest accruals are deemed uncollectible, interest credited to income in the current year is reversed and interest accrued in prior years is charged to the allowance for loan losses. Nonaccrual loans are returned to an accrual status when, in the opinion of management, the financial position of the borrower indicates that there is no longer any reasonable doubt as to the timely payment of interest and principal.

Under Heartland’s credit practices, a loan is impaired when, based on current information and events, it is probable that Heartland will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loan impairment is measured based on the present value of expected future cash flows discounted at the loan’s effective interest rate, except where more practical, impairment is measured at the observable market price of the loan or the fair value of the collateral if the loan is collateral dependent.

The following table shows the balance in the allowance for loan losses at September 30, 2016, and December 31, 2015, and the related loan balances, disaggregated on the basis of impairment methodology, in thousands. Loans evaluated under ASC 310-10-35 include loans on nonaccrual status and troubled debt restructurings, which are individually evaluated for impairment, and other impaired loans deemed to have similar risk characteristics. All other loans are collectively evaluated for impairment under ASC 450-20. Heartland has made no significant changes to the accounting for the allowance for loan losses policy during 2016.

	Allowance For Loan Losses			Gross Loans Receivable Held to Maturity		
	Ending Balance Under ASC 310-10-35	Ending Balance Under ASC 450-20	Total	Ending Balance Evaluated for Impairment Under ASC 310-10-35	Ending Balance Evaluated for Impairment Under ASC 450-20	Total
September 30, 2016						
Commercial	$2,077	$14,814	$16,891	$8,002	$1,287,314	$1,295,316
Commercial real estate	2,661	21,020	23,681	56,894	2,548,402	2,605,296
Agricultural and agricultural real estate	967	4,039	5,006	17,155	472,232	489,387
Residential real estate	473	1,509	1,982	22,448	603,517	625,965
Consumer	1,364	5,729	7,093	5,858	419,724	425,582
Total	$7,542	$47,111	$54,653	$110,357	$5,331,189	$5,441,546
December 31, 2015						
Commercial	$471	$15,624	$16,095	$6,919	$1,272,295	$1,279,214

Commercial real estate	698	18,834	19,532	45,442	2,280,918	2,326,360
Agricultural and agricultural real estate	—	3,887	3,887	4,612	467,258	471,870
Residential real estate	393	1,541	1,934	17,790	521,765	539,555
Consumer	1,206	6,031	7,237	5,458	381,409	386,867
Total	$2,768	$45,917	$48,685	$80,221	$4,923,645	$5,003,866

The following table presents nonaccrual loans, accruing loans past due 90 days or more and troubled debt restructured loans at September 30, 2016, and December 31, 2015, in thousands.

	September 30, 2016	December 31, 2015
Nonaccrual loans	$ 57,344	$ 37,874
Nonaccrual troubled debt restructured loans	455	1,781
Total nonaccrual loans	$ 57,799	$ 39,655
Accruing loans past due 90 days or more	$ 105	$ —
Performing troubled debt restructured loans	$ 10,281	$ 11,075

The following tables provide information on troubled debt restructured loans that were modified during the three- and nine-month periods ended September 30, 2016, and September 30, 2015, dollars in thousands:

	Three Months Ended September 30,					
	2016			2015		
	Number of Loans	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Number of Loans	Pre-Modification Recorded Investment	Post-Modification Recorded Investment
Commercial	—	$ —	$ —	—	$ —	$ —
Commercial real estate	—	—	—	—	—	—
Total commercial and commercial real estate	—	—	—	—	—	—
Agricultural and agricultural real estate	—	—	—	—	—	—
Residential real estate	5	651	651	1	55	55
Consumer	—	—	—	—	—	—
Total	5	$ 651	$ 651	1	$ 55	$ 55

	Nine Months Ended September 30,					
	2016			2015		
	Number of Loans	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Number of Loans	Pre-Modification Recorded Investment	Post-Modification Recorded Investment
Commercial	1	$ 100	$ 100	1	$ 830	$ 830
Commercial real estate	1	179	179	1	3,992	3,992
Total commercial and commercial real estate	2	279	279	2	4,822	4,822
Agricultural and agricultural real estate	—	—	—	1	311	311
Residential real estate	5	651	651	1	55	55
Consumer	—	—	—	—	—	—
Total	7	$ 930	$ 930	4	$ 5,188	$ 5,188

The pre-modification and post-modification recorded investment represents amounts as of the date of loan modification. Since the modifications on these loans have been only interest rate concessions and term extensions, not principal reductions, the pre-modification and post-modification recorded investment amounts are the same. At September 30, 2016, there were no commitments to extend credit to any of the borrowers with an existing troubled debt restructuring.

The following tables present troubled debt restructured loans for which there was a payment default during the three- and nine-month periods ended September 30, 2016, and September 30, 2015, that had been modified during the twelve-month period prior to default:

	With Payment Defaults During the Following Periods Three Months Ended September 30,			
	2016		2015	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
Commercial	—	$ —	—	$ —
Commercial real estate	—	—	1	814
Total commercial and commercial real estate	—	—	1	814
Agricultural and agricultural real estate	—	—	—	—
Residential real estate	—	—	—	—
Consumer	—	—	—	—
Total	—	$ —	1	$ 814

	With Payment Defaults During the Following Periods Nine Months Ended September 30,			
	2016		2015	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
Commercial	1	$ 95	—	$ —
Commercial real estate	—	—	1	814
Total commercial and commercial real estate	1	95	1	814
Agricultural and agricultural real estate	—	—	—	—
Residential real estate	—	—	—	—
Consumer	—	—	—	—
Total	1	$ 95	1	$ 814

Heartland's internal rating system is a series of grades reflecting management's risk assessment, based on its analysis of the borrower's financial condition. The "pass" category consists of all loans that are not in the "nonpass" category, categorized into a range of loan grades that reflect increasing, though still acceptable, risk. Movement of risk through the various grade levels in the pass category is monitored for early identification of credit deterioration. The "nonpass" category consists of special mention, substandard, doubtful and loss loans. The "special mention" rating is attached to loans where the borrower exhibits negative financial trends due to borrower specific or systemic conditions that, if left uncorrected, threaten the borrower's capacity to meet its debt obligations. The borrower is believed to have sufficient financial flexibility to react to and resolve its negative financial situation. These credits are closely monitored for improvement or deterioration. The "substandard" rating is assigned to loans that are inadequately protected by the current sound net worth and paying capacity of the borrower and may be further at risk due to deterioration in the value of collateral pledged. Well-defined weaknesses jeopardize liquidation of the debt. These loans are still considered collectible; however, a distinct possibility exists that Heartland will sustain some loss if deficiencies are not corrected. Substandard loans may exhibit some or all of the following weaknesses: deteriorating trends, lack of earnings, inadequate debt service capacity, excessive debt and/or lack of liquidity. The "doubtful" rating is assigned to loans where identified weaknesses make collection or liquidation in full, on the basis of existing facts, conditions and values, highly questionable and improbable. These borrowers are usually in default, lack liquidity and capital, as well as resources necessary to remain an operating entity. Specific pending events, such as capital injections, liquidations or perfection of liens on additional collateral, may strengthen the credit, thus deferring classification of the loan as loss until the exact status can be determined. The "loss" rating is assigned to loans considered uncollectible. As of September 30, 2016, Heartland had no loans classified as doubtful and no loans classified as loss. Loans are placed on "nonaccrual" when management does not expect to collect payments of principal and interest in full or when principal or interest has been in default for a period of 90 days or more, unless the loan is both well secured and in the process of collection.

The following table presents loans by credit quality indicator at September 30, 2016, and December 31, 2015, in thousands:

	Pass	Nonpass	Total
September 30, 2016			
Commercial	$1,196,389	$98,927	$1,295,316
Commercial real estate	2,412,518	192,778	2,605,296
Total commercial and commercial real estate	3,608,907	291,705	3,900,612
Agricultural and agricultural real estate	422,810	66,577	489,387
Residential real estate	596,479	29,486	625,965
Consumer	415,919	9,663	425,582
Total gross loans receivable held to maturity	$5,044,115	$397,431	$5,441,546
December 31, 2015			
Commercial	$1,106,276	$172,938	$1,279,214
Commercial real estate	2,107,474	218,886	2,326,360
Total commercial and commercial real estate	3,213,750	391,824	3,605,574
Agricultural and agricultural real estate	435,745	36,125	471,870
Residential real estate	515,195	24,360	539,555
Consumer	377,173	9,694	386,867
Total gross loans receivable held to maturity	$4,541,863	$462,003	$5,003,866

The nonpass category in the table above is comprised of approximately 53% special mention loans and 47% substandard loans as of September 30, 2016. The percent of nonpass loans on nonaccrual status as of September 30, 2016, was 15%. As of December 31, 2015, the nonpass category in the table above was comprised of approximately 68% special mention loans and 32% substandard loans. The percent of nonpass loans on nonaccrual status as of December 31, 2015, was 8%. Loans delinquent 30 to 89 days as a percent of total loans were 0.40% at September 30, 2016, compared to 0.31% at December 31, 2015. Changes in credit risk are monitored on a continuous basis and changes in risk ratings are made when identified. All impaired loans are reviewed at least annually.

The following table sets forth information regarding Heartland's accruing and nonaccrual loans at September 30, 2016, and December 31, 2015, in thousands:

	Accruing Loans						
	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Nonaccrual	Total Loans
September 30, 2016							
Commercial	$2,754	$427	$91	$3,272	$1,287,663	$ 4,381	$1,295,316
Commercial real estate	8,499	815	—	9,314	2,576,946	19,036	2,605,296
Total commercial and commercial real estate	11,253	1,242	91	12,586	3,864,609	23,417	3,900,612
Agricultural and agricultural real estate	93	1,473	—	1,566	473,708	14,113	489,387
Residential real estate	2,042	142	—	2,184	607,229	16,552	625,965
Consumer	4,888	760	14	5,662	416,203	3,717	425,582
Total gross loans receivable held to maturity	$18,276	$3,617	$105	$21,998	$5,361,749	$ 57,799	$5,441,546
December 31, 2015							
Commercial	$2,005	$608	$—	$2,613	$1,273,678	$ 2,923	$1,279,214
Commercial real estate	3,549	2,077	—	5,626	2,302,052	18,682	2,326,360
Total commercial and commercial real estate	5,554	2,685	—	8,239	3,575,730	21,605	3,605,574
Agricultural and agricultural real estate	143	54	—	197	470,455	1,218	471,870
Residential real estate	1,900	115	—	2,015	523,915	13,625	539,555
Consumer	3,964	933	—	4,897	378,763	3,207	386,867
Total gross loans receivable held to maturity	$11,561	$3,787	$—	$15,348	$4,948,863	$ 39,655	$5,003,866

The majority of Heartland's impaired loans are those that are nonaccrual or have had their terms restructured in a troubled debt restructuring. The following tables present, by category of loan, impaired loans, the unpaid contractual loan balances at September 30, 2016, and December 31, 2015; the outstanding loan balances recorded on the consolidated balance sheets at September 30, 2016, and December 31, 2015; any related allowance recorded for those loans as of September 30, 2016, and December 31, 2015; the average outstanding loan balances recorded on the consolidated balance sheets during the three- and nine- months ended September 30, 2016, and year ended December 31, 2015; and the interest income recognized on the impaired loans during the three- and nine-month periods ended September 30, 2016, and year ended December 31, 2015, in thousands:

	Unpaid Contractual Balance	Loan Balance	Related Allowance Recorded	Quarter-to-Date Avg. Loan Balance	Quarter-to-Date Interest Income Recognized	Year-to-Date Avg. Loan Balance	Year-to-Date Interest Income Recognized
September 30, 2016							
Impaired loans with a related allowance:							
Commercial	$ 4,664	$ 4,283	$ 2,077	$ 3,121	$ 73	$ 2,566	$ 87
Commercial real estate	15,379	15,346	2,661	15,696	138	9,114	350
Total commercial and commercial real estate	20,043	19,629	4,738	18,817	211	11,680	437
Agricultural and agricultural real estate	3,181	3,181	967	1,112	—	390	—
Residential real estate	3,512	3,427	473	3,602	8	3,285	15
Consumer	3,277	3,277	1,364	3,198	10	3,251	25
Total impaired loans with a related allowance	$ 30,013	$ 29,514	$ 7,542	$ 26,729	$ 229	$ 18,606	$ 477
Impaired loans without a related allowance:							
Commercial	$ 4,632	$ 3,719	$ —	$ 4,413	$ 78	$ 7,105	$ 339
Commercial real estate	44,750	41,548	—	37,243	452	41,645	1,236
Total commercial and commercial real estate	49,382	45,267	—	41,656	530	48,750	1,575
Agricultural and agricultural real estate	13,974	13,974	—	15,310	23	12,232	118
Residential real estate	19,496	19,021	—	18,660	136	17,684	217
Consumer	2,741	2,581	—	2,397	12	2,619	32
Total impaired loans without a related allowance	$ 85,593	$ 80,843	$ —	$ 78,023	$ 701	$ 81,285	$ 1,942
Total impaired loans held to maturity:							
Commercial	$ 9,296	$ 8,002	$ 2,077	$ 7,534	$ 151	$ 9,671	$ 426
Commercial real estate	60,129	56,894	2,661	52,939	590	50,759	1,586
Total commercial and commercial real estate	69,425	64,896	4,738	60,473	741	60,430	2,012
Agricultural and agricultural real estate	17,155	17,155	967	16,422	23	12,622	118
Residential real estate	23,008	22,448	473	22,262	144	20,969	232
Consumer	6,018	5,858	1,364	5,595	22	5,870	57
Total impaired loans held to maturity	$ 115,606	$ 110,357	$ 7,542	$ 104,752	$ 930	$ 99,891	$ 2,419

	Unpaid Contractual Balance	Loan Balance	Related Allowance Recorded	Year-to-Date Avg. Loan Balance	Year-to-Date Interest Income Recognized
December 31, 2015					