CHEMICAL FINANCIAL CORP
Form 10-Q
April 30, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)
þ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended March 31, 2014

¨ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from ____________ to ____________
Commission File Number: 000-08185
CHEMICAL FINANCIAL CORPORATION
(Exact Name of Registrant as Specified in Its Charter)

Michigan (State or Other Jurisdiction of Incorporation or Organization)	38-2022454 (I.R.S. Employer Identification No.)
235 E. Main Street Midland, Michigan	48640
(Address of Principal Executive Offices)	(Zip Code)

(989) 839-5350
(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 þ No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No þ
The number of shares outstanding of the registrant's Common Stock, $1 par value, as of April 18, 2014, was 29,865,861 shares.

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Forward-Looking Statements

This report contains forward-looking statements that are based on management's beliefs, assumptions, current expectations, estimates and projections about the financial services industry, the economy and Chemical Financial Corporation (Corporation). Words such as "anticipates," "believes," "estimates," "expects," "forecasts," "intends," "is likely," "judgment," "opinion," "plans," "predicts," "probable," "projects," "should," "trend," "will," and variations of such words and similar expressions are intended to identify such forward-looking statements. Such statements are based upon current beliefs and expectations and involve substantial risks and uncertainties which could cause actual results to differ materially from those expressed or implied by such forward-looking statements. These statements include, among others, statements related to future levels of loan charge-offs, future levels of provisions for loan losses, real estate valuation, future levels of nonperforming assets, the rate of asset dispositions, future capital levels, future dividends, future growth and funding sources, future liquidity levels, future profitability levels, future deposit insurance premiums, the effects on earnings of future changes in interest rates, the future level of other revenue sources, future economic trends and conditions, future initiatives to expand the Corporation's market share, expected performance and cash flows from acquired loans, future effects of new or changed accounting standards, future opportunities for acquisitions, opportunities to increase top line revenues, the Corporation's ability to grow its core franchise, future cost savings and the Corporation's ability to maintain adequate liquidity and capital based on the requirements adopted by the Basel Committee on Banking Supervision and U.S. regulators. All statements referencing future time periods are forward-looking.

Management's determination of the provision and allowance for loan losses; the carrying value of acquired loans, goodwill and mortgage servicing rights; the fair value of investment securities (including whether any impairment on any investment security is temporary or other-than-temporary and the amount of any impairment); and management's assumptions concerning pension and other postretirement benefit plans involve judgments that are inherently forward-looking. There can be no assurance that future loan losses will be limited to the amounts estimated. All of the information concerning interest rate sensitivity is forward-looking. The future effect of changes in the financial and credit markets and the national and regional economies on the banking industry, generally, and on the Corporation, specifically, are also inherently uncertain. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions ("risk factors") that are difficult to predict with regard to timing, extent, likelihood and degree of occurrence. Therefore, actual results and outcomes may materially differ from what may be expressed or forecasted in such forward-looking statements. The Corporation undertakes no obligation to update, amend or clarify forward-looking statements, whether as a result of new information, future events or otherwise.

This report also contains forward-looking statements regarding the Corporation's outlook or expectations with respect to the planned acquisition of Northwestern Bancorp, Inc. (Northwestern), the expected costs to be incurred in connection with the acquisition, Northwestern’s future performance and consequences of its integration into the Corporation and the impact of the transaction on the Corporation’s future performance.

Risk factors relating to both the transaction and the integration of Northwestern into the Corporation after closing include, without limitation:

Completion of the transaction is dependent on, among other things, receipt of regulatory and Northwestern shareholder approvals, the timing of which cannot be predicted with precision at this point and which may not be received at all.

The impact of the completion of the transaction on the Corporation's financial statements will be affected by the timing of the transaction, including in particular the ability to complete the acquisition in the third quarter of 2014.

The transaction may be more expensive to complete and the anticipated benefits, including anticipated cost savings and strategic gains, may be significantly harder or take longer to achieve than expected or may not be achieved in their entirety as a result of unexpected factors or events.

The integration of Northwestern's business and operations into the Corporation, which will include conversion of Northwestern's operating systems and procedures, may take longer than anticipated or be more costly than anticipated or have unanticipated adverse results relating to Northwestern's or the Corporation's existing businesses.

The Corporation's ability to achieve anticipated results from the transaction is dependent on the state of the economic and financial markets going forward. Specifically, the Corporation may incur more credit losses from Northwestern’s loan portfolio than expected and deposit attrition may be greater than expected.

Risk factors also include, but are not limited to, the risk factors described in Item 1A of the Corporation’s Annual Report on Form 10-K for the year ended December 31, 2013. These and other factors are representative of the risk factors that may emerge and could cause a difference between an ultimate actual outcome and a preceding forward-looking statement.

Part I. Financial Information

Item 1. Financial Statements
Chemical Financial Corporation
Consolidated Statements of Financial Position

	March 31, 2014 (Unaudited)	December 31, 2013	March 31, 2013 (Unaudited)
	(In thousands, except share data)		
Assets			
Cash and cash equivalents:			
Cash and cash due from banks	$122,288	$130,811	$101,501
Interest-bearing deposits with the Federal Reserve Bank	260,097	179,977	477,225
Total cash and cash equivalents	382,385	310,788	578,726
Investment securities:			
Available-for-sale, at fair value	657,818	684,570	703,622
Held-to-maturity (fair value - $272,407 at March 31, 2014, $268,271 at December 31, 2013 and $261,405 at March 31, 2013)	278,099	273,905	257,749
Total investment securities	935,917	958,475	961,371
Loans held-for-sale, at fair value	3,814	5,219	14,850
Loans	4,753,289	4,647,621	4,185,261
Allowance for loan losses	(78,473)	(79,072)	(82,834)
Net loans	4,674,816	4,568,549	4,102,427
Premises and equipment (net of accumulated depreciation of $102,163 at March 31, 2014, $100,261 at December 31, 2013 and $94,068 at March 31, 2013)	74,779	75,308	73,501
Goodwill	120,164	120,164	120,164
Other intangible assets	12,872	13,424	14,902
Interest receivable and other assets	133,581	132,781	124,587
Total Assets	$6,338,328	$6,184,708	$5,990,528
Liabilities and Shareholders' Equity			
Deposits:			
Noninterest-bearing	$1,219,081	$1,227,768	$1,086,986
Interest-bearing	4,012,212	3,894,617	3,920,372
Total deposits	5,231,293	5,122,385	5,007,358
Interest payable and other liabilities	40,209	38,395	30,931
Short-term borrowings	361,231	327,428	347,484
Total liabilities	5,632,733	5,488,208	5,385,773
Shareholders' equity:			
Preferred stock, no par value:			
Authorized – 200,000 shares, none issued	—	—	—
Common stock, $1 par value per share:			
Authorized — 45,000,000 shares			
Issued and outstanding — 29,865,841 shares at March 31, 2014, 29,789,825 shares at December 31, 2013 and 27,532,377 shares at March 31, 2013	29,866	29,790	27,532
Additional paid-in capital	489,045	488,177	433,648
Retained earnings	205,985	199,053	174,209
Accumulated other comprehensive loss	(19,301)	(20,520)	(30,634)
Total shareholders' equity	705,595	696,500	604,755

Total Liabilities and Shareholders’ Equity	$6,338,328	$6,184,708	$5,990,528

See accompanying notes to consolidated financial statements (unaudited).

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Chemical Financial Corporation
Consolidated Statements of Income (Unaudited)

	Three Months Ended March 31,	
	2014	2013
	(In thousands, except per share data)	
Interest Income		
Interest and fees on loans	$49,195	$47,905
Interest on investment securities:		
Taxable	2,383	2,438
Tax-exempt	1,704	1,564
Dividends on nonmarketable equity securities	238	151
Interest on deposits with the Federal Reserve Bank	125	321
Total interest income	53,645	52,379
Interest Expense		
Interest on deposits	3,745	4,566
Interest on short-term borrowings	121	114
Interest on Federal Home Loan Bank (FHLB) advances	—	47
Total interest expense	3,866	4,727
Net Interest Income	49,779	47,652
Provision for loan losses	1,600	3,000
Net interest income after provision for loan losses	48,179	44,652
Noninterest Income		
Service charges and fees on deposit accounts	4,930	5,195
Wealth management revenue	3,631	3,445
Other charges and fees for customer services	4,194	4,651
Mortgage banking revenue	794	2,012
Gain on sale of investment securities	—	847
Other	167	89
Total noninterest income	13,716	16,239
Operating Expenses		
Salaries, wages and employee benefits	24,184	23,369
Occupancy	4,374	3,663
Equipment and software	3,461	3,450
Other	10,163	11,475
Total operating expenses	42,182	41,957
Income before income taxes	19,713	18,934
Federal income tax expense	5,900	5,700
Net Income	$13,813	$13,234
Net Income Per Common Share:		
Basic	$0.46	$0.48
Diluted	0.46	0.48
Cash Dividends Declared Per Common Share	0.23	0.21

See accompanying notes to consolidated financial statements (unaudited).

Chemical Financial Corporation
Consolidated Statements of Comprehensive Income (Unaudited)

	Three Months Ended March 31,	
	2014	2013
	(In thousands)	
Net income	$13,813	$13,234
Other comprehensive income, net of tax:		
Net unrealized gains on investment securities available-for-sale, net of tax expense of $857 and $227 for the three months ended March 31, 2014 and 2013, respectively	1,593	420
Reclassification adjustment for realized gain on sale of investment securities available-for-sale included in net income, net of tax expense of $296 for the three months ended March 31, 2013	—	(551)
Adjustment for pension and other postretirement benefits, net of tax expense (benefit) of $(201) and $332 for the three months ended March 31, 2014 and 2013, respectively	(374)	616
Total other comprehensive income, net of tax	1,219	485
Comprehensive income	$15,032	$13,719

See accompanying notes to consolidated financial statements (unaudited).

Chemical Financial Corporation
Consolidated Statements of Changes in Shareholders' Equity (Unaudited)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	(In thousands, except per share data)				
Balances at January 1, 2013	$27,499	$433,195	$166,766	$ (31,119)	$596,341
Comprehensive income			13,234	485	13,719
Cash dividends declared and paid of $0.21 per share			(5,791)		(5,791)
Shares issued – stock options		(10)			(10)
Shares issued – directors' stock plans	11	228			239
Shares issued – restricted stock units	22	(394)			(372)
Share-based compensation		629			629
Balances at March 31, 2013	$27,532	$433,648	$174,209	$ (30,634)	$604,755
Balances at January 1, 2014	$29,790	$488,177	$199,053	$ (20,520)	$696,500
Comprehensive income			13,813	1,219	15,032
Cash dividends declared and paid of $0.23 per share			(6,881)		(6,881)
Shares issued – stock options	27	530			557
Shares issued – directors' stock plans	12	298			310
Shares issued – restricted stock units	36	(513)			(477)
Share-based compensation	1	553			554
Balances at March 31, 2014	$29,866	$489,045	$205,985	$ (19,301)	$705,595

See accompanying notes to consolidated financial statements (unaudited).

Chemical Financial Corporation
Consolidated Statements of Cash Flows (Unaudited)

	Three Months Ended March 31,	
	2014	2013
	(In thousands)	
Operating Activities		
Net income	$13,813	$13,234
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,600	3,000
Gains on sales of loans	(647)	(2,394)
Proceeds from sales of loans	22,080	71,205
Loans originated for sale	(20,028)	(65,996)
Net gains on sales of other real estate and repossessed assets	(379)	(235)
Depreciation of premises and equipment	2,119	2,177
Amortization of intangible assets	695	1,001
Gain on sale of investment securities	—	(847)
Net amortization of premiums and discounts on investment securities	1,093	863
Share-based compensation expense	554	629
Contributions to defined benefit pension plan	—	(15,000)
Net (increase) decrease in interest receivable and other assets	(1,319)	7,154
Net increase (decrease) in interest payable and other liabilities	1,239	(7,837)
Net cash provided by operating activities	20,820	6,954
Investing Activities		
Investment securities – available-for-sale:		
Proceeds from sales	—	33,028
Proceeds from maturities, calls and principal reductions	28,426	41,165
Purchases	—	(191,165)
Investment securities – held-to-maturity:		
Proceeds from maturities, calls and principal reductions	31,798	7,111
Purchases	(36,309)	(34,940)
Net increase in loans	(109,965)	(24,374)
Proceeds from sales of other real estate and repossessed assets	2,197	2,701
Purchases of premises and equipment and branch bank property, net of disposals	(1,590)	(602)
Net cash used in investing activities	(85,443)	(167,076)
Financing Activities		
Net increase in interest- and noninterest-bearing demand deposits and savings accounts	78,246	125,946
Net increase (decrease) in time deposits	30,662	(40,031)
Net increase in short-term borrowings	33,803	37,021
Repayment of FHLB advances	—	(34,289)
Cash dividends paid	(6,881)	(5,791)
Proceeds from directors' stock plans and exercise of stock options, net of shares withheld	867	229
Cash paid for payroll taxes upon conversion of restricted stock units	(477)	(372)
Net cash provided by financing activities	136,220	82,713
Net increase (decrease) in cash and cash equivalents	71,597	(77,409)
Cash and cash equivalents at beginning of period	310,788	656,135
Cash and cash equivalents at end of period	$382,385	$578,726
Supplemental Disclosure of Cash Flow Information:		
Interest paid	$3,858	$4,890
Loans transferred to other real estate and repossessed assets	2,098	2,191

Closed branch offices transferred to other real estate	—	382
Federal income taxes paid (refunded)	—	(3,500)

See accompanying notes to consolidated financial statements (unaudited).

Chemical Financial Corporation
Notes to Consolidated Financial Statements (Unaudited)
March 31, 2014

Note 1: Significant Accounting Policies

Nature of Operations

Chemical Financial Corporation (Corporation) operates in a single operating segment — commercial banking. The Corporation is a financial holding company, headquartered in Midland, Michigan, that operates through one commercial bank, Chemical Bank. Chemical Bank operates within the State of Michigan as a state-chartered commercial bank. Chemical Bank operates through an internal organizational structure of four regional banking units and offers a full range of traditional banking and fiduciary products and services to the residents and business customers in the bank’s geographical market areas. The products and services offered by the regional banking units, through branch banking offices, are generally consistent throughout the Corporation, as is the pricing of those products and services. The marketing of products and services throughout the Corporation’s regional banking units is generally uniform, as many of the markets served by the regional banking units overlap. The distribution of products and services is uniform throughout the Corporation’s regional banking units and is achieved primarily through retail branch banking offices, automated teller machines and electronically accessed banking products.

The Corporation’s primary sources of revenue are interest from its loan products and investment securities, service charges and fees from customer deposit accounts and wealth management revenue.

Basis of Presentation

The accompanying unaudited consolidated financial statements of the Corporation and its subsidiaries have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, the interim consolidated financial statements do not include all of the information and footnotes required by GAAP for complete financial statements and should be read in conjunction with the Corporation’s consolidated financial statements and footnotes thereto included in the Corporation’s Annual Report on Form 10-K for the year ended December 31, 2013. In the opinion of management, the accompanying unaudited interim consolidated financial statements contain all adjustments believed necessary to present fairly the financial condition and results of operations of the Corporation for the periods presented. Operating results for the three months ended March 31, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014.

Use of Estimates

Management makes estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying footnotes. Estimates that are particularly susceptible to significant change include the determination of the allowance for loan losses, expected cash flows from acquired loans, fair value amounts related to business combinations, pension expense, income taxes, goodwill impairment and those assets that require fair value measurement. Actual results could differ from these estimates.

Originated Loans

Originated loans include all of the Corporation's portfolio loans, excluding loans acquired on April 30, 2010 in the acquisition of O.A.K. Financial Corporation (OAK). Originated loans also include loans acquired as part of the Corporation's branch acquisition on December 7, 2012, as these loans were performing and were considered high-quality loans in accordance with the Corporation's credit underwriting standards at that date. Originated loans are stated at their principal amount outstanding, net of unearned income, charge-offs and unamortized deferred fees and costs. Loan interest income is recognized on the accrual basis. Deferred loan fees and costs are amortized over the loan term based on the level-yield method. Net loan commitment fees are deferred and amortized into fee income on a straight-line basis over the commitment period.

The past due status of a loan is based on the loan’s contractual terms. A loan is placed in nonaccrual status (accrual of interest is discontinued) when principal or interest is past due 90 days or more (except for a loan that is secured by residential real estate, which is transferred to nonaccrual status at 120 days past due), unless the loan is both

well-secured and in the process of collection, or earlier when, in the opinion of management, there is sufficient reason to doubt the collectibility of principal or interest. Interest previously accrued, but not collected, is reversed and charged against interest income at the time the loan is placed in nonaccrual status. Subsequent receipts of interest while a loan is in nonaccrual status are recorded as a reduction of principal. Loans are returned to accrual status when principal and interest payments are brought current, payments have been received consistently for a period of time (generally six months) and collectibility is no longer in doubt.

Chemical Financial Corporation
Notes to Consolidated Financial Statements (Unaudited)
March 31, 2014

Loans Acquired in a Business Combination

Loans acquired in a business combination (acquired loans) consist of loans acquired on April 30, 2010 in the acquisition of OAK. Acquired loans were recorded at fair value at the date of acquisition, without a carryover of the associated allowance for loan losses related to these loans, through a fair value discount that was, in part, attributable to deterioration in credit quality. The estimate of expected credit losses was determined based on due diligence performed by executive and senior officers of the Corporation, with assistance from third-party consultants. The fair value discount was recorded as a reduction of the acquired loans' outstanding principal balances in the consolidated statement of financial position at the acquisition date.

The Corporation accounts for acquired loans, which are recorded at fair value at acquisition, in accordance with Accounting Standards Codification (ASC) Topic 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality (ASC 310-30). ASC 310-30 allows investors to aggregate loans acquired into loan pools that have common risk characteristics and thereby use a composite interest rate and expectation of cash flows expected to be collected for the loan pools. Under the provisions of ASC 310-30, the Corporation aggregated acquired loans into 14 pools based upon common risk characteristics, including types of loans, commercial type loans with similar risk grades and whether loans were performing or nonperforming. A pool is considered a single unit of accounting for purposes of applying the guidance prescribed in ASC 310-30. A loan will be removed from a pool of acquired loans only if the loan is sold, foreclosed, paid off or written off, and will be removed from the pool at the carrying value. If an individual loan is removed from a pool of loans, the difference between its relative carrying amount and the cash, fair value of the collateral, or other assets received would not affect the effective yield used to recognize the accretable difference on the remaining pool. The Corporation estimated the cash flows expected to be collected over the life of the pools of loans at acquisition, and estimates expected cash flows quarterly thereafter, based on a set of assumptions including expectations as to default rates, prepayment rates and loss severities. The Corporation must make numerous assumptions, interpretations and judgments using internal and third-party credit quality information to determine whether it is probable that the Corporation will be able to collect all contractually required payments. This is a point in time assessment and inherently subjective due to the nature of the available information and judgment involved.

The calculation of the fair value of the acquired loan pools entails estimating the amount and timing of cash flows attributable to both principal and interest expected to be collected on such loan pools and then discounting those cash flows at market interest rates. The excess of a loan pool's expected cash flows at the acquisition date over its estimated fair value is referred to as the "accretable yield," which is recognized into interest income over the estimated remaining life of the loan pool on a level-yield basis. The difference between a loan pool's contractually required principal and interest payments at the acquisition date and the cash flows expected to be collected at the acquisition date is referred to as the "nonaccretable difference," which includes an estimate of future credit losses expected to be incurred over the estimated life of the loan pool and interest payments that are not expected to be collected. Decreases to the expected cash flows in each loan pool in subsequent periods will require the Corporation to record a provision for loan losses. Improvements in expected cash flows in each loan pool in subsequent periods will result in reversing a portion of the nonaccretable difference, which is then classified as part of the accretable yield and subsequently recognized into interest income over the estimated remaining life of the loan pool.

Loans Modified Under Troubled Debt Restructurings

Loans modified under troubled debt restructurings (TDRs) involve granting a concession to a borrower who is experiencing financial difficulty. Concessions generally include modifications to original loan terms, including changes to a loan's payment schedule or interest rate, which generally would not otherwise be considered. The Corporation's TDRs include performing and nonperforming TDRs, which consist of originated loans that continue to accrue interest at the loan's original interest rate as the Corporation expects to collect the remaining principal and interest on the loan, and nonaccrual TDRs, which include originated loans that are in a nonaccrual status and are no longer accruing interest, as the Corporation does not expect to collect the full amount of principal and interest owed

from the borrower on these loans. At the time of modification (except for loans on nonaccrual status), a TDR is reported as a nonperforming TDR until a six-month payment history of principal and interest payments, in accordance with the terms of the loan modification, is sustained, at which time the Corporation moves the loan to a performing status (performing TDR). If the Corporation does not expect to collect all principal and interest on the loan, the modified loan is classified as a nonaccrual TDR. All TDRs are accounted for as impaired loans and are included in the Corporation's analysis of the allowance for loan losses. A TDR that has been refinanced by a borrower who is no longer experiencing financial difficulty and which yields a market rate of interest at the time of a renewal is no longer reported as a TDR.

Loans in the Corporation’s commercial loan portfolio (comprised of commercial, commercial real estate, real estate construction and land development loans) that meet the definition of a TDR generally consist of loans where the Corporation has allowed borrowers to defer scheduled principal payments and make interest-only payments for a specified period of time at the stated interest rate of the original loan agreement or reduced payments due to a moderate extension of the loan’s contractual term. If the Corporation does not expect to collect all principal and interest on the loan, the modified loan is classified as a nonaccrual TDR. If the Corporation does not expect to incur a loss on the loan based on its assessment of the borrowers’ expected cash flows, as the pre- and post-modification effective yields are approximately the same, the loan is classified as a nonperforming TDR until a six-month payment history is sustained, at which time the loan is classified as a performing TDR. Since no loss is expected to be incurred on these loans, no additional provision for loan losses has been recognized related to these loans, and these loans accrue interest at their contractual interest rate. These loans are individually evaluated for impairment and transferred to nonaccrual status if they become 90 days past due as to principal or interest payments or if it is probable that any remaining principal and interest payments due on the loan will not be collected in accordance with the modified terms of the loans.

Loans in the Corporation’s consumer loan portfolio (comprised of residential mortgage, consumer installment and home equity loans) that meet the definition of a performing or nonperforming TDR generally consist of residential mortgage loans that include a concession that reduces a borrower’s monthly payments by decreasing the interest rate charged on the loan for a specified period of time (generally 24 months) under a formal modification agreement. The Corporation recognizes an additional provision for loan losses related to impairment on these loans on an individual basis based on the present value of expected future cash flows discounted at the loan’s original effective interest rate. These loans continue to accrue interest at the loan's effective interest rate, which consists of contractual interest under the terms of the modification agreement in addition to an adjustment for the accretion of computed impairment. These loans are moved to nonaccrual status if they become 90 days past due as to principal or interest payments, or sooner if conditions warrant.

Impaired Loans

A loan is defined to be impaired when it is probable that payment of principal and interest will not be paid in accordance with the original contractual terms of the loan agreement. Impaired loans include nonaccrual loans (including nonaccrual TDRs), performing and nonperforming TDRs and acquired loans that were not performing in accordance with original contractual terms. Impaired loans are accounted for at the lower of the present value of expected cash flows discounted at the loan's original effective interest rate or the estimated fair value of the collateral, if the loan is collateral dependent. When the present value of expected cash flows or the fair value of collateral of an impaired loan in the originated loan portfolio is less than the amount of unpaid principal outstanding on the loan, the principal balance of the loan is reduced to its carrying value through either an allocation of the allowance for loan losses or a partial charge-off of the loan balance.

Nonperforming Loans

Nonperforming loans are comprised of loans for which the accrual of interest has been discontinued (nonaccrual loans, including nonaccrual TDRs), accruing originated loans contractually past due 90 days or more as to interest or principal payments and nonperforming TDRs.

Acquired loans that were classified as nonperforming loans prior to being acquired and acquired loans that are not performing in accordance with contractual terms subsequent to acquisition are not classified as nonperforming loans subsequent to acquisition because the loans are recorded in pools at net realizable value based on the principal and interest the Corporation expects to collect on such loans.

Allowance for Loan Losses

The allowance for loan losses (allowance) is presented as a reserve against loans. The allowance represents management’s assessment of probable loan losses inherent in the Corporation’s loan portfolio.

Management's evaluation of the adequacy of the allowance is based on a continuing review of the loan portfolio, actual loan loss experience, the underlying value of the collateral, risk characteristics of the loan portfolio, the level and composition of nonperforming loans, the financial condition of the borrowers, the balance of the loan portfolio, loan growth, economic conditions, employment levels in the Corporation's local markets, and special factors affecting specific business sectors. The Corporation maintains formal policies and procedures to monitor and control credit risk. Management evaluates the allowance on a quarterly basis in an effort to ensure the level is appropriate to absorb probable losses inherent in the loan portfolio.

The allowance provides for probable losses that have been identified with specific customer relationships and for probable losses believed to be incurred in the remainder of the originated loan portfolio, but that have not been specifically identified. The Corporation utilizes its own loss experience to estimate inherent losses on loans. Internal risk ratings are assigned to each loan in the commercial loan portfolio (commercial, commercial real estate, real estate construction and land development loans) at the time of origination and are subject to subsequent periodic reviews by senior management. The Corporation performs a detailed credit quality review quarterly on all loans greater than $0.25 million that have deteriorated below certain levels of credit risk, and may allocate a specific portion of the allowance to such loans based upon this review. A portion of the allowance is allocated to the remaining loans by applying projected loss ratios, based on numerous factors. Projected loss ratios incorporate factors such as charge-off experience, trends with respect to adversely risk-rated loans in the commercial loan portfolio, trends with respect to past due and nonaccrual loans, changes in economic conditions and trends, changes in the value of underlying collateral and other credit risk factors. This evaluation involves a high degree of uncertainty.

In determining the allowance and the related provision for loan losses, the Corporation considers four principal elements: (i) valuation allowances based upon probable losses identified during the review of impaired loans in the commercial loan portfolio, (ii) reserves established for adversely-rated loans in the commercial loan portfolio and nonaccrual residential mortgage, consumer installment and home equity loans based on loan loss experience of other adversely-rated loans, (iii) reserves, by loan classes, on all other loans based principally on a five-year historical loan loss experience, with higher weighting placed on the most recent years, and loan loss trends and (iv) an unallocated allowance based on the imprecision in the overall allowance methodology for loans collectively evaluated for impairment.

Although the Corporation allocates portions of the allowance to specific loans and loan types, the entire allowance attributable to originated loans is available for any loan losses that occur in the originated portfolio. Loans that are deemed not collectible are charged off and reduce the allowance. The provision for loan losses and recoveries on loans previously charged off increase the allowance. Collection efforts may continue and recoveries may occur after a loan is charged off.

Acquired loans are aggregated into pools based upon common risk characteristics. An allowance may be recorded related to an acquired loan pool if it experiences a decrease in expected cash flows, as compared to those projected at the acquisition date. On a quarterly basis, the expected future cash flow of each pool is estimated based on various factors, including changes in property values of collateral dependent loans, default rates, loss severities and prepayment speeds. Decreases in estimates of expected cash flows within a pool generally result in a charge to the provision for loan losses and a corresponding increase in the allowance allocated to acquired loans for the particular pool. Increases in estimates of expected cash flows within a pool generally result in a reduction in the allowance allocated to acquired loans for the particular pool, if applicable, and then an adjustment to the accretable yield for the pool, which will increase amounts recognized in interest income in subsequent periods.

Various regulatory agencies, as an integral part of their examination process, periodically review the allowance. Such agencies may require additions to the allowance, based on their judgment, reflecting information available to them at the time of their examinations.

Fair Value Measurements

Fair value for assets and liabilities measured at fair value on a recurring or nonrecurring basis refers to the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants in the market in which the reporting entity transacts such sales or transfers based on the assumptions market participants would use when pricing an asset or liability. Assumptions are developed based on prioritizing information within a fair value hierarchy that gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data, such as the reporting entity’s own data.

The Corporation may choose to measure eligible items at fair value at specified election dates. Unrealized gains and losses on items for which the fair value measurement option has been elected are reported in earnings at each subsequent reporting date. The fair value option (i) may be applied instrument by instrument, with certain exceptions, allowing the Corporation to record identical financial assets and liabilities at fair value or by another measurement basis permitted under GAAP, (ii) is irrevocable (unless a new election date occurs) and (iii) is applied only to entire instruments and not to portions of instruments. At March 31, 2014, December 31, 2013 and March 31, 2013, the Corporation had elected the fair value option on all of its residential mortgage loans held-for-sale. The Corporation has not elected the fair value option for any other financial assets or liabilities.

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Share-Based Compensation

The Corporation grants stock options, stock awards, restricted stock performance units and restricted stock service-based units to certain executive and senior management employees. The Corporation accounts for share-based compensation expense using the modified-prospective transition method. Under that method, compensation expense is recognized for stock options based on the estimated grant date fair value as computed using the Black-Scholes option pricing model and the probability of issuance. The Corporation accounts for stock awards based on the closing stock price of the Corporation's common stock on the date of the award. The fair values of both stock options and stock awards are recognized as compensation expense on a straight-line basis over the requisite service period. The Corporation accounts for restricted stock performance units based on the closing stock price of the Corporation's common stock on the date of grant, discounted by the present value of estimated future dividends to be declared over the requisite performance or service period. The fair value of restricted stock performance units is recognized as compensation expense over the expected requisite performance period, or requisite service period for awards with multiple performance and service conditions. The Corporation accounts for restricted stock service-based units based on the closing stock price of the Corporation's common stock on the date of grant, as these awards accrue dividend equivalents equal to the amount of any cash dividends that would have been payable to a shareholder owning the number of shares of the Corporation's common stock represented by the restricted stock service-based units. The fair value of the restricted stock service-based units is recognized as compensation expense over the requisite service period.

Cash flows realized from the tax benefits of exercised stock option awards that result from actual tax deductions that are in excess of the recorded tax benefits related to the compensation expense recognized for those options (excess tax benefits) are classified as financing activities on the consolidated statements of cash flows.

Income and Other Taxes

The Corporation is subject to the income and other tax laws of the United States, the State of Michigan and other states where nexus has been created. These laws are complex and are subject to different interpretations by the taxpayer and the various taxing authorities. In determining the provision for income and other taxes, management must make judgments and estimates about the application of these inherently complex laws, related regulations and case law. In the process of preparing the Corporation’s tax returns, management attempts to make reasonable interpretations of enacted tax laws. These interpretations are subject to challenge by the tax authorities upon audit or to reinterpretation based on management’s ongoing assessment of facts and evolving case law.

On a quarterly basis, management assesses the reasonableness of its estimated annual effective federal tax rate based upon its current best estimate of taxable income and the applicable taxes expected for the full year. Deferred tax assets and liabilities are reassessed on a quarterly basis, including the need for a valuation allowance for deferred tax assets. Uncertain income tax positions are evaluated to determine whether it is more-likely-than-not that a tax position will be sustained upon examination based on the technical merits of the tax position. If a tax position is more-likely-than-not to be sustained, a tax benefit is recognized for the amount that is greater than 50% likely to be realized. Reserves for contingent income tax liabilities attributable to unrecognized tax benefits associated with uncertain tax positions are reviewed quarterly for adequacy based upon developments in tax law and the status of audits or examinations. The Corporation had no contingent income tax liabilities recorded at March 31, 2014, December 31, 2013 or March 31, 2013. The tax periods open to examination by the Internal Revenue Service include the calendar years ended December 31, 2013, 2012, 2011 and 2010.

Shareholders’ Equity

Common Stock Repurchase Programs

From time to time, the board of directors of the Corporation approves common stock repurchase programs allowing management to repurchase shares of the Corporation’s common stock in the open market. The repurchased shares are available for later reissuance in connection with potential future stock dividends, the Corporation’s dividend

reinvestment plan, employee benefit plans and other general corporate purposes. Under these programs, the timing and actual number of shares subject to repurchase are at the discretion of management and are contingent on a number of factors, including the projected parent company cash flow requirements and the Corporation's market price per share.

In January 2008, the board of directors of the Corporation authorized the repurchase of up to 500,000 shares of the Corporation's common stock under a stock repurchase program. In November 2011, the board of directors of the Corporation reaffirmed the stock buy-back authorization with the qualification that the shares may only be repurchased if the share price is below the tangible book value per share of the Corporation's common stock at the time of the repurchase. Since the January 2008 authorization, no shares have been repurchased. At March 31, 2014, there were 500,000 remaining shares available for repurchase under the Corporation's stock repurchase programs.

Underwritten Public Offering of Common Stock

On September 18, 2013, the Corporation issued and sold 2,213,750 shares of common stock, including 288,750 shares of common stock that were issued and sold upon the exercise in full of the underwriters' over-allotment option, at a public offering price of $26.00 per share. The net proceeds from the issuance and sale of the common stock, after deducting the underwriting discount and issuance-related expenses, totaled $53.9 million. The Corporation intends to use the net proceeds to fund a portion of the purchase price in connection with its pending acquisition of Northwestern Bancorp, Inc.

Shelf Registration

The Corporation filed a universal shelf registration statement with the Securities and Exchange Commission (SEC) on May 23, 2013, which became effective on June 7, 2013, to register up to $100 million in securities. The shelf registration statement provides the Corporation with the ability to raise capital, subject to SEC rules and limitations, if the Corporation's board of directors decides to do so. As previously discussed, on September 18, 2013, the Corporation completed a $57.6 million public stock offering, which does not take into account the underwriting discount and issuance-related expenses. As a result of the public stock offering, the Corporation has $42.4 million in securities still available under the shelf registration statement.

Preferred Stock

On April 20, 2009, the shareholders of the Corporation authorized the board of directors of the Corporation to issue up to 200,000 shares of preferred stock in connection with either an acquisition by the Corporation of an entity that has shares of preferred stock issued and outstanding pursuant to any program established by the United States government or participation by the Corporation in any program established by the United States government. At March 31, 2014, no shares of preferred stock were issued and outstanding.

Legal Matters

The Corporation and Chemical Bank are subject to certain legal actions arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, the ultimate disposition of these matters is not expected to have a material adverse effect on the consolidated financial condition or results of operations of the Corporation.

Adopted Accounting Pronouncements

Joint and Several Liability Arrangements

In February 2013, the Financial Accounting Standards Board (FASB) issued ASU 2013-04, Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is Fixed at the Reporting Date (ASU 2013-04). ASU 2013-04 provides guidance in relation to the recognition, measurement and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date. ASU 2013-04 is effective for interim and annual periods beginning after December 15, 2013 and should be applied retrospectively for all periods presented for those obligations resulting from joint and several liability arrangements that exist at the beginning of the fiscal year of adoption. The adoption of ASU 2013-04 as of January 1, 2014 did not have a material impact on the Corporation's consolidated financial condition or results of operations.

Accounting for Investments in Qualified Affordable Housing Projects

In January 2014, the FASB issued ASU 2014-01, Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects, a consensus of the FASB Emerging Issues Task Force (ASU 2014-01). ASU 2014-01 allows limited liability investors in qualified affordable housing projects to amortize the cost of their investment in proportion to tax credits and other tax benefits received (referred to as the "proportional amortization method"), and present the amortization as a component of income tax expense. The proportional amortization method replaces the equity method, which requires the investment performance to be included in pre-tax income. The following conditions must be met in order for an investor to use the proportional amortization method: (i) it is probable that the tax credits allocable to the investor will be available, (ii) the investor does not have the ability to exercise significant influence over the operating and financial policies of the limited liability

entity, (iii) substantially all of the projected benefits are from tax credits and other tax benefits, (iv) the investor's projected yield based solely on the cash flows from the tax credits and other tax benefits is positive, and (v) the investor is a limited liability investor in the limited liability entity for both legal and tax purposes, and the investor's liability is limited to its capital investment. The decision to apply the proportional amortization method is an accounting policy method that, if elected, must be applied consistently to all investments that meet the above conditions. An investor that does not qualify for the proportional amortization method or elects not to apply it will account for its investment under the cost or equity method in accordance with current guidance. ASU 2014-01 also introduces disclosure requirements for all investments in qualified affordable housing projects, regardless of the accounting method used for those investments. An investor must disclose (i) the nature of investments in qualified affordable housing projects and (ii) the effect of the measurement of those investments and the related tax credits on its financial statements. ASU 2014-01 is effective for public companies for interim and annual periods beginning after December 15, 2014, with early adoption permitted. Once adopted, the guidance must be applied retrospectively to all periods presented.

The Corporation elected to early-adopt ASU 2014-01 as of January 1, 2014. The Corporation previously accounted for its investments in qualified affordable housing projects under the equity method; however, the Corporation determined that its investments in its qualified affordable housing projects meet the conditions set forth in ASU 2014-01 to account for these investments under the proportional amortization method. The Corporation invests in qualified affordable housing projects solely for the purpose of obtaining tax credits and other tax benefits. Accordingly, the Corporation believes that amortizing its investments in qualified affordable housing projects as a component of income tax expense rather than as a component of operating expenses better reflects the nature and intent of these investments. As a result of adopting ASU 2014-01, the Corporation recognized additional income tax expense attributable to the amortization of investments in qualified affordable housing projects of $0.1 million during the three months ended March 31, 2014. While the adoption of ASU 2014-01 requires retrospective application to all periods presented, the Corporation did not restate income tax expense for the three months ended March 31, 2013 as the amount of additional income tax expense attributable to the amortization of investments in qualified affordable housing projects was not considered material. The Corporation's remaining investment in qualified affordable housing projects totaled $3.2 million at both March 31, 2014 and December 31, 2013 and $3.5 million at March 31, 2013.

Pending Accounting Pronouncements

In-Substance Foreclosures

In January 2014, the FASB issued ASU 2014-04, Receivables—Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure, a consensus of the FASB Emerging Issues Task Force (ASU 2014-04). ASU 2014-04 clarifies that an in-substance foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (i) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (ii) the borrower conveying all interest in the residential real estate property to the creditor to satisfy the loan through completion of a deed in lieu of foreclosure or similar legal agreement. ASU 2014-04 also requires disclosure of both the amount of foreclosed residential real estate property held by the creditor and the recorded investment in loans collateralized by residential real estate property that are in the process of foreclosure. ASU 2014-04 is effective for public companies for interim and annual periods beginning after December 15, 2014, with early adoption permitted. Once adopted, an entity can elect either (i) a modified retrospective transition method or (ii) a prospective transition method. The modified retrospective transition method is applied by means of a cumulative-effect adjustment to residential mortgage loans and foreclosed residential real estate properties existing as of the beginning of the period for which the amendments of ASU 2014-04 are effective, with real estate reclassified to loans measured at the carrying value of the real estate at the date of adoption and loans reclassified to real estate measured at the lower of net carrying value of the loan or the fair value of the real estate less

costs to sell at the date of adoption. The prospective transition method is applied by means of applying the amendments of ASU 2014-04 to all instances of receiving physical possession of residential real estate properties that occur after the date of adoption. The adoption of ASU 2014-04 is not expected to have a material impact on the Corporation's consolidated financial condition or results of operations.

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Note 2: Acquisitions
Pending Acquisition of Northwestern Bancorp, Inc.
On March 10, 2014, the Corporation and Northwestern Bancorp, Inc. (Northwestern), the parent company of Northwestern Bank, a community bank based in Traverse City, Michigan, entered into a definitive agreement whereby the Corporation will acquire Northwestern in an all cash transaction valued at $120 million, subject to adjustment under limited circumstances. The Corporation anticipates the transaction, with cost savings fully phased in and excluding the impact of acquisition-related transaction costs, to be immediately accretive to earnings. Closing of the merger, which is expected to occur in the third quarter of 2014, is subject to certain conditions, including approval by the shareholders of Northwestern and regulatory approval. The Corporation recognized $0.3 million of pre-tax acquisition-related costs during the three months ended March 31, 2014.
Acquisition of 21 Branches
On December 7, 2012, Chemical Bank acquired 21 branches located in the Northeast and Battle Creek regions of Michigan, including $404 million in deposits and $44 million in loans (branch acquisition transaction). The purchase price of the branch offices, including equipment, was $8.1 million and the Corporation paid a premium on deposits of $11.5 million, or approximately 2.85% of total deposits. The loans were purchased at a discount of 1.75%. In connection with the branch acquisition transaction, the Corporation recorded goodwill of $6.8 million and other intangible assets attributable to customer core deposits of $5.6 million.
Acquisition of O.A.K. Financial Corporation (OAK)
On April 30, 2010, the Corporation acquired OAK and OAK's wholly-owned bank subsidiary, Byron Bank, for total consideration of $83.7 million. Byron Bank, which was subsequently consolidated with and into Chemical Bank, provided traditional banking services and products through 14 banking offices serving communities in Ottawa, Allegan and Kent counties in west Michigan. At the acquisition date, OAK had total assets of $820 million, including total loans of $627 million, and total deposits of $693 million, including brokered deposits of $193 million.
Upon acquisition, the OAK loan portfolio had contractually required principal payments receivable of $683 million and a fair value of $627 million.The outstanding contractual principal balance and the carrying amount of the acquired loan portfolio were $313 million and $289 million, respectively, at March 31, 2014, compared to $320 million and $295 million, respectively, at December 31, 2013 and $400 million and $374 million, respectively, at March 31, 2013.
Activity for the accretable yield, which includes contractually due interest for acquired loans that have been renewed or extended since the date of acquisition and continue to be accounted for in loan pools in accordance with ASC 310-30, follows:

	Three Months Ended March 31,	
	2014	2013
	(In thousands)	
Balance at beginning of period	$32,610	$49,390
Additions (reductions)*	821	(491)
Accretion recognized in interest income	(3,843)	(4,940)
Reclassification from nonaccretable difference	10,000	125
Balance at end of period	$39,588	$44,084

* Represents additions of estimated contractual interest expected to be collected from acquired loans being renewed or extended, less reductions in contractual interest resulting from the early payoff of acquired loans.

As part of its ongoing assessment of the acquired loan portfolio, management has determined that the overall credit quality of the acquired loan portfolio has improved, which has resulted in an improvement in expected cash flows of loan pools in the acquired commercial loan portfolio. Accordingly, management reclassified $10.0 million during the three months ended March 31, 2014 from the nonaccretable difference to the accretable yield for these acquired

commercial loan pools, which will increase amounts recognized into interest income over the estimated remaining lives of these loan pools.

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Note 3: Investment Securities

The following is a summary of the amortized cost and fair value of investment securities available-for-sale and investment securities held-to-maturity at March 31, 2014, December 31, 2013 and March 31, 2013:

	Investment Securities Available-for-Sale			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(In thousands)			
March 31, 2014				
Government sponsored agencies	$91,613	$295	$298	$91,610
State and political subdivisions	42,369	1,408	—	43,777
Residential mortgage-backed securities	291,187	1,023	3,472	288,738
Collateralized mortgage obligations	167,622	393	1,296	166,719
Corporate bonds	65,003	505	93	65,415
Preferred stock	1,389	170	—	1,559
Total	$659,183	$3,794	$5,159	$657,818
December 31, 2013				
Government sponsored agencies	$93,895	$250	$382	$93,763
State and political subdivisions	42,450	1,355	7	43,798
Residential mortgage-backed securities	303,495	968	5,097	299,366
Collateralized mortgage obligations	182,128	452	1,639	180,941
Corporate bonds	65,028	499	252	65,275
Preferred stock	1,389	63	25	1,427
Total	$688,385	$3,587	$7,402	$684,570
March 31, 2013				
Government sponsored agencies	$94,939	$608	$168	$95,379
State and political subdivisions	47,043	2,206	—	49,249
Residential mortgage-backed securities	237,256	1,984	48	239,192
Collateralized mortgage obligations	246,751	1,087	170	247,668
Corporate bonds	65,114	783	349	65,548
Preferred stock	6,144	442	—	6,586
Total	$697,247	$7,110	$735	$703,622

	Investment Securities Held-to-Maturity			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(In thousands)			
March 31, 2014				
State and political subdivisions	$267,599	$5,331	$6,983	$265,947
Trust preferred securities	10,500	—	4,040	6,460
Total	$278,099	$5,331	$11,023	$272,407
December 31, 2013				
State and political subdivisions	$263,405	$5,462	$6,846	$262,021
Trust preferred securities	10,500	—	4,250	6,250
Total	$273,905	$5,462	$11,096	$268,271
March 31, 2013				

State and political subdivisions	$247,249	$10,002	$1,886	$255,365
Trust preferred securities	10,500	—	4,460	6,040
Total	$257,749	$10,002	$6,346	$261,405

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The majority of the Corporation's residential mortgage-backed securities and collateralized mortgage obligations are backed by a U.S. government agency (Government National Mortgage Association) or a government sponsored enterprise (Federal Home Loan Mortgage Corporation or Federal National Mortgage Association).
At March 31, 2014, the Corporation held $10.5 million of trust preferred investment securities that were recorded as held-to-maturity, with $10.0 million of these securities representing a 100% interest in a trust preferred investment security of a small non-public bank holding company in Michigan that has been assessed by the Corporation as financially strong. The remaining $0.5 million represents a 10% interest in another trust preferred investment security of a small non-public bank holding company located in Michigan that was categorized as well-capitalized under regulatory guidelines at March 31, 2014.
At March 31, 2014, it was the Corporation's opinion that the market for trust preferred investment securities was not active, and thus, in accordance with GAAP, when there is a significant decrease in the volume and activity for an asset or liability in relation to normal market activity, adjustments to transaction or quoted prices may be necessary or a change in valuation technique or multiple valuation techniques may be appropriate. The Corporation obtained pricing information for its trust preferred investment securities from an independent third-party pricing source. The pricing information was based on both observable inputs and unobservable inputs, including appropriate risk adjustments that market participants would make for possible nonperformance, illiquidity and issuer specifics such as size, leverage position and location. The observable inputs were based on the existing market and insight into appropriate rate of return adjustments that market participants would require for the additional risk associated with a single issue investment security of this nature. Based on the information obtained from the independent third-party pricing source, the Corporation calculated a fair value at March 31, 2014 of $6.2 million on its $10.0 million trust preferred investment security and $0.3 million on its $0.5 million trust preferred investment security, resulting in a combined unrealized loss of $4.0 million at that date.
The following is a summary of the amortized cost and fair value of investment securities at March 31, 2014, by maturity, for both available-for-sale and held-to-maturity investment securities. The maturities of residential mortgage-backed securities and collateralized mortgage obligations are based on scheduled principal payments. The maturities of all other debt securities are based on final contractual maturity.

	March 31, 2014	
	Amortized Cost	Fair Value
	(In thousands)	
Investment Securities Available-for-Sale:		
Due in one year or less	$160,093	$159,861
Due after one year through five years	403,039	402,251
Due after five years through ten years	90,096	89,721
Due after ten years	4,566	4,426
Preferred stock	1,389	1,559
Total	$659,183	$657,818
Investment Securities Held-to-Maturity:		
Due in one year or less	$38,060	$38,096
Due after one year through five years	104,588	105,892
Due after five years through ten years	79,077	79,653
Due after ten years	56,374	48,766
Total	$278,099	$272,407

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The following schedule summarizes information for both available-for-sale and held-to-maturity investment securities with gross unrealized losses at March 31, 2014, December 31, 2013 and March 31, 2013, aggregated by category and length of time that individual securities have been in a continuous unrealized loss position.

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(In thousands)					
March 31, 2014						
Government sponsored agencies	$45,396	$110	$15,204	$188	$60,600	$298
State and political subdivisions	79,787	4,942	56,180	2,041	135,967	6,983
Residential mortgage-backed securities	247,397	3,472	—	—	247,397	3,472
Collateralized mortgage obligations	76,900	885	12,833	411	89,733	1,296
Corporate bonds	—	—	14,907	93	14,907	93
Trust preferred securities	—	—	6,460	4,040	6,460	4,040
Total	$449,480	$9,409	$105,584	$6,773	$555,064	$16,182
December 31, 2013						
Government sponsored agencies	$47,352	$205	$14,031	$177	$61,383	$382
State and political subdivisions	126,345	6,475	19,074	378	145,419	6,853
Residential mortgage-backed securities	274,076	5,097	—	—	274,076	5,097
Collateralized mortgage obligations	84,995	1,127	14,684	512	99,679	1,639
Corporate bonds	14,931	78	19,826	174	34,757	252
Trust preferred securities	—	—	6,250	4,250	6,250	4,250
Preferred stock	1,024	25	—	—	1,024	25
Total	$548,723	$13,007	$73,865	$5,491	$622,588	$18,498
March 31, 2013						
Government sponsored agencies	$17,281	$168	$—	$—	$17,281	$168
State and political subdivisions	73,880	1,667	10,685	219	84,565	1,886
Residential mortgage-backed securities	86,179	45	374	3	86,553	48
Collateralized mortgage obligations	27,802	133	8,560	37	36,362	170
Corporate bonds	—	—	19,651	349	19,651	349
Trust preferred securities	—	—	6,040	4,460	6,040	4,460
Total	$205,142	$2,013	$45,310	$5,068	$250,452	$7,081

An assessment is performed quarterly by the Corporation to determine whether unrealized losses in its investment securities portfolio are temporary or other-than-temporary by carefully considering all available information. The Corporation reviews factors such as financial statements, credit ratings, news releases and other pertinent information of the underlying issuer or company to make its determination. Management did not believe any individual unrealized loss on any investment security, as of March 31, 2014, represented an other-than-temporary impairment (OTTI). Management believed that the unrealized losses on investment securities at March 31, 2014 were temporary in nature and due primarily to changes in interest rates and reduced market liquidity and not as a result of credit-related issues. Unrealized losses of $4.0 million in the trust preferred securities portfolio, related to trust preferred securities of two well-capitalized bank holding companies in Michigan, were attributable to illiquidity in financial markets for these types of investments. The Corporation performed an analysis of the creditworthiness of these issuers and concluded that, at March 31, 2014, the Corporation expected to recover the entire amortized cost basis of these investment securities.

At March 31, 2014, the Corporation did not have the intent to sell any of its impaired investment securities and believed that it was more-likely-than-not that the Corporation will not have to sell any such investment securities before a full recovery of amortized cost. Accordingly, at March 31, 2014, the Corporation believed the impairments in its investment securities portfolio were temporary in nature. However, there is no assurance that OTTI may not occur in the future.

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Note 4: Loans

Loan portfolio segments are defined as the level at which an entity develops and documents a systematic methodology to determine its allowance. The Corporation has two loan portfolio segments (commercial loans and consumer loans) that it uses in determining the allowance. Both quantitative and qualitative factors are used by management at the loan portfolio segment level in determining the adequacy of the allowance for the Corporation. Classes of loans are a disaggregation of an entity's loan portfolio segments. Classes of loans are defined as a group of loans which share similar initial measurement attributes, risk characteristics, and methods for monitoring and assessing credit risk. The Corporation has seven classes of loans, which are set forth below.

Commercial — Loans and lines of credit to varying types of businesses, including municipalities, school districts and nonprofit organizations, for the purpose of supporting working capital, operational needs and term financing of equipment. Repayment of such loans is generally provided through operating cash flows of the business. Commercial loans are predominately secured by equipment, inventory, accounts receivable, personal guarantees of the owner and other sources of repayment, although the Corporation may also secure commercial loans with real estate.

Commercial real estate — Loans secured by real estate occupied by the borrower for ongoing operations, non-owner occupied real estate leased to one or more tenants and vacant land that has been acquired for investment or future land development.

Real estate construction — Secured loans for the construction of business properties. Real estate construction loans often convert to a commercial real estate loan at the completion of the construction period.

Land development — Secured development loans made to borrowers for the purpose of infrastructure improvements to vacant land to create finished marketable residential and commercial lots/land. Most land development loans are originated with the intention that the loans will be paid through the sale of developed lots/land by the developers within twelve months of the completion date. Land development loans at March 31, 2014, December 31, 2013 and March 31, 2013 were primarily comprised of loans to develop residential properties.

Residential mortgage — Loans secured by one- to four-family residential properties, generally with fixed interest rates for periods of fifteen years or less. The loan-to-value ratio at the time of origination is generally 80% or less. Residential mortgage loans with a loan-to-value ratio of more than 80% generally require private mortgage insurance.

Consumer installment — Loans to consumers primarily for the purpose of acquiring automobiles, recreational vehicles and personal watercraft. These loans consist of relatively small amounts that are spread across many individual borrowers.

Home equity — Loans and lines of credit whereby consumers utilize equity in their personal residence, generally through a second mortgage, as collateral to secure the loan.

Commercial, commercial real estate, real estate construction and land development loans are referred to as the Corporation's commercial loan portfolio, while residential mortgage, consumer installment and home equity loans are referred to as the Corporation's consumer loan portfolio. A summary of loans follows:

	March 31, 2014	December 31, 2013	March 31, 2013
	(In thousands)		
Commercial loan portfolio:			
Commercial	$1,208,641	$1,176,307	$1,038,115
Commercial real estate	1,279,167	1,232,658	1,162,383
Real estate construction	85,084	89,795	65,367
Land development	13,761	20,066	32,640
Subtotal	2,586,653	2,518,826	2,298,505
Consumer loan portfolio:			
Residential mortgage	962,009	960,423	872,454

Consumer installment	675,412	644,769	540,216
Home equity	529,215	523,603	474,086
Subtotal	2,166,636	2,128,795	1,886,756
Total loans	$4,753,289	$4,647,621	$4,185,261

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Credit Quality Monitoring

The Corporation maintains loan policies and credit underwriting standards as part of the process of managing credit risk. These standards include making loans generally only within the Corporation's market areas. The Corporation's lending markets generally consist of communities across the lower peninsula of Michigan, except for the southeastern portion of Michigan. The Corporation has no foreign loans.

The Corporation has a commercial loan portfolio approval process involving underwriting and individual and group loan approval authorities to consider credit quality and loss exposure at loan origination. The loans in the Corporation's commercial loan portfolio are risk rated at origination based on the grading system set forth below. The approval authority of relationship managers is established based on experience levels, with credit decisions greater than $1.0 million requiring group loan authority approval, except for four executive and senior officers who have varying limits exceeding $1.5 million and up to $3.5 million. With respect to the group loan authorities, the Corporation has a loan committee, consisting of certain executive and senior officers, that meets weekly to consider loans ranging in amounts from $1.0 million to $5.0 million, depending on risk rating and credit action required. A directors' loan committee, consisting of nine members of the board of directors, including the chief executive officer and senior credit officer, meets bi-weekly to consider loans in amounts over $5.0 million, and certain loans under $5.0 million depending on a loan's risk rating and credit action required. Loans over $10.0 million require majority approval of the board of directors.

The majority of the Corporation's consumer loan portfolio is comprised of secured loans that are relatively small. The Corporation's consumer loan portfolio has a centralized approval process which utilizes standardized underwriting criteria. The ongoing measurement of credit quality of the consumer loan portfolio is largely done on an exception basis. If payments are made on schedule, as agreed, then no further monitoring is performed. However, if delinquency occurs, the delinquent loans are turned over to the Corporation's collection department for resolution, resulting in repossession or foreclosure if payments are not brought current. Credit quality for the entire consumer loan portfolio is measured by the periodic delinquency rate, nonaccrual amounts and actual losses incurred.

Loans in the commercial loan portfolio tend to be larger and more complex than those in the consumer loan portfolio, and therefore, are subject to more intensive monitoring. All loans in the commercial loan portfolio have an assigned relationship manager, and most borrowers provide periodic financial and operating information that allows the relationship managers to stay abreast of credit quality during the life of the loans. The risk ratings of loans in the commercial loan portfolio are reassessed at least annually, with loans below an acceptable risk rating reassessed more frequently and reviewed by various loan committees within the Corporation at least quarterly.

The Corporation maintains a centralized independent loan review function that monitors the approval process and ongoing asset quality of the loan portfolio, including the accuracy of loan grades. The Corporation also maintains an independent appraisal review function that participates in the review of all appraisals obtained by the Corporation for loans in the commercial loan portfolio.

Credit Quality Indicators

Commercial Loan Portfolio

The Corporation uses a nine grade risk rating system to monitor the ongoing credit quality of its commercial loan portfolio. These loan grades rank the credit quality of a borrower by measuring liquidity, debt capacity, coverage and payment behavior as shown in the borrower's financial statements. The loan grades also measure the quality of the borrower's management and the repayment support offered by any guarantors. A summary of the Corporation's loan grades (or characteristics of the loans within each grade) follows:

Risk Grades 1-5 (Acceptable Credit Quality) — All loans in risk grades 1 through 5 are considered to be acceptable credit risks by the Corporation and are grouped for purposes of allowance for loan loss considerations and financial reporting. The five grades essentially represent a ranking of loans that are all viewed to be of acceptable credit quality, taking into consideration the various factors mentioned above, but with varying degrees of financial strength, debt

coverage, management and factors that could impact credit quality. Business credits within risk grades 1 through 5 range from Risk Grade 1: Prime Quality (factors include: excellent business credit; excellent debt capacity and coverage; outstanding management; strong guarantors; superior liquidity and net worth; favorable loan-to-value ratios; debt secured by cash or equivalents, or backed by the full faith and credit of the U.S. Government) to Risk Grade 5: Acceptable Quality With Care (factors include: acceptable business credit, but with added risk due to specific industry or internal situations).

Risk Grade 6 (Watch) — A business credit that is not acceptable within the Corporation’s loan origination criteria; cash flow may not be adequate or is continually inconsistent to service current debt; financial condition has deteriorated as company trends/management have become inconsistent; the company is slow in furnishing quality financial information; working capital needs of the company are reliant on short-term borrowings; personal guarantees are weak and/or with little or no liquidity; the net worth of the company has deteriorated after recent or continued losses; the loan requires constant monitoring and attention from the Corporation; payment delinquencies becoming more serious; if left uncorrected, these potential weaknesses may, at some future date, result in deterioration of repayment prospects.
Risk Grade 7 (Substandard — Accrual) — A business credit that is inadequately protected by the current financial net worth and paying capacity of the obligor or of the collateral pledged, if any; management has deteriorated or has become non-existent; quality financial information is not available; a high level of maintenance is required by the Corporation; cash flow can no longer support debt requirements; loan payments are continually and/or severely delinquent; negative net worth; personal guaranty has become insignificant; a credit that has a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. The Corporation still expects a full recovery of all contractual principal and interest payments; however, a possibility exists that the Corporation will sustain some loss if deficiencies are not corrected.
Risk Grade 8 (Substandard — Nonaccrual) — A business credit accounted for on a nonaccrual basis that has all the weaknesses inherent in a loan classified as risk grade 7 with the added characteristic that the weaknesses are so pronounced that, on the basis of current financial information, conditions, and values, collection in full is highly questionable; a partial loss is possible and interest is no longer being accrued. This loan meets the definition of an impaired loan. The risk of loss requires analysis to determine whether a valuation allowance needs to be established.
Risk Grade 9 (Substandard — Doubtful) — A business credit that has all the weaknesses inherent in a loan classified as risk grade 8 and interest is no longer being accrued, but additional deficiencies make it highly probable that liquidation will not satisfy the majority of the obligation; the primary source of repayment is nonexistent and there is doubt as to the value of the secondary source of repayment; the possibility of loss is likely, but current pending factors could strengthen the credit. This loan meets the definition of an impaired loan. A loan charge-off is recorded when management deems an amount uncollectible; however, the Corporation will establish a valuation allowance for probable losses, if required.
The Corporation considers all loans graded 1 through 5 as acceptable credit risks and structures and manages such relationships accordingly. Periodic financial and operating data combined with regular loan officer interactions are deemed adequate to monitor borrower performance. Loans graded 6 and 7 are considered higher-risk credits than loans graded 1 through 5 and the frequency of loan officer contact and receipt of financial data is increased to stay abreast of borrower performance. Loans graded 8 and 9 are considered problematic and require special care. Further, loans graded 6 through 9 are managed and monitored regularly through a number of processes, procedures and committees, including oversight by a loan administration committee comprised of executive and senior management of the Corporation, which include highly structured reporting of financial and operating data, intensive loan officer intervention and strategies to exit, as well as potential management by the Corporation’s special assets group.

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The following schedule presents the recorded investment of loans in the commercial loan portfolio by risk rating categories at March 31, 2014, December 31, 2013 and March 31, 2013:

	Commercial	Commercial Real Estate	Real Estate Construction	Land Development	Total
	(In thousands)				
March 31, 2014					
Originated Portfolio:					
Risk Grades 1-5	$1,060,743	$1,034,517	$70,750	$3,831	$2,169,841
Risk Grade 6	18,359	33,962	680	968	53,969
Risk Grade 7	33,768	32,671	815	700	67,954
Risk Grade 8	17,301	27,552	160	2,267	47,280
Risk Grade 9	950	16	—	—	966
Subtotal	1,131,121	1,128,718	72,405	7,766	2,340,010
Acquired Portfolio:					
Risk Grades 1-5	67,326	139,130	12,679	3,906	223,041
Risk Grade 6	2,423	2,627	—	—	5,050
Risk Grade 7	3,635	7,753	—	—	11,388
Risk Grade 8	4,136	939	—	2,089	7,164
Risk Grade 9	—	—	—	—	—
Subtotal	77,520	150,449	12,679	5,995	246,643
Total	$1,208,641	$1,279,167	$85,084	$13,761	$2,586,653
December 31, 2013					
Originated Portfolio:					
Risk Grades 1-5	$1,024,461	$991,964	$75,696	$6,874	$2,098,995
Risk Grade 6	20,082	34,248	654	969	55,953
Risk Grade 7	29,776	30,377	738	3,128	64,019
Risk Grade 8	17,414	28,580	371	2,309	48,674
Risk Grade 9	960	18	—	—	978
Subtotal	1,092,693	1,085,187	77,459	13,280	2,268,619
Acquired Portfolio:					
Risk Grades 1-5	73,763	133,653	12,336	4,667	224,419
Risk Grade 6	5,472	5,022	—	—	10,494
Risk Grade 7	852	7,792	—	—	8,644
Risk Grade 8	3,527	1,004	—	2,119	6,650
Risk Grade 9	—	—	—	—	—
Subtotal	83,614	147,471	12,336	6,786	250,207
Total	$1,176,307	$1,232,658	$89,795	$20,066	$2,518,826
March 31, 2013					
Originated Portfolio:					
Risk Grades 1-5	$868,683	$858,484	$50,601	$11,720	$1,789,488
Risk Grade 6	28,037	44,603	59	434	73,133
Risk Grade 7	26,040	29,359	1,020	5,754	62,173
Risk Grade 8	10,471	34,170	168	4,105	48,914
Risk Grade 9	1,715	1,679	—	—	3,394
Subtotal	934,946	968,295	51,848	22,013	1,977,102

Acquired Portfolio:					
Risk Grades 1-5	93,560	176,523	13,519	7,783	291,385
Risk Grade 6	6,870	5,035	—	242	12,147
Risk Grade 7	874	11,146	—	—	12,020
Risk Grade 8	1,865	1,384	—	2,602	5,851
Risk Grade 9	—	—	—	—	—
Subtotal	103,169	194,088	13,519	10,627	321,403
Total	$1,038,115	$1,162,383	$65,367	$32,640	$2,298,505

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Consumer Loan Portfolio

The Corporation evaluates the credit quality of loans in the consumer loan portfolio based on the performing or nonperforming status of the loan. Loans in the consumer loan portfolio that are performing in accordance with original contractual terms and are less than 90 days past due and accruing interest are considered to be in a performing status, while those that are in nonaccrual status, contractually past due 90 days or more as to interest or principal payments or classified as a nonperforming TDR are considered to be in a nonperforming status. Nonaccrual TDRs in the consumer loan portfolio are included with nonaccrual loans, while other TDRs in the consumer loan portfolio are considered in a nonperforming status until they meet the Corporation's definition of a performing TDR, at which time they are considered in a performing status.

The following schedule presents the recorded investment of loans in the consumer loan portfolio based on loans in a performing status and loans in a nonperforming status at March 31, 2014, December 31, 2013 and March 31, 2013:

	Residential Mortgage (In thousands)	Consumer Installment	Home Equity	Total Consumer
March 31, 2014				
Originated Loans:				
Performing	$937,968	$672,984	$497,196	$2,108,148
Nonperforming	12,833	806	2,668	16,307
Subtotal	950,801	673,790	499,864	2,124,455
Acquired Loans:				
Performing	11,150	1,622	29,020	41,792
Nonperforming	58	—	331	389
Subtotal	11,208	1,622	29,351	42,181
Total	$962,009	$675,412	$529,215	$2,166,636
December 31, 2013				
Originated Loans:				
Performing	$934,747	$642,370	$488,996	$2,066,113
Nonperforming	14,134	676	3,382	18,192
Subtotal	948,881	643,046	492,378	2,084,305
Acquired Loans:				
Performing	11,481	1,723	31,182	44,386
Nonperforming	61	—	43	104
Subtotal	11,542	1,723	31,225	44,490
Total	$960,423	$644,769	$523,603	$2,128,795
March 31, 2013				
Originated Loans:				
Performing	$844,240	$537,817	$432,489	$1,814,546
Nonperforming	14,931	699	3,711	19,341
Subtotal	859,171	538,516	436,200	1,833,887
Acquired Loans:				
Performing	13,283	1,700	37,724	52,707
Nonperforming	—	—	162	162
Subtotal	13,283	1,700	37,886	52,869
Total	$872,454	$540,216	$474,086	$1,886,756

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Nonperforming Loans
A summary of nonperforming loans follows:

	March 31, 2014	December 31, 2013	March 31, 2013
	(In thousands)		
Nonaccrual loans:			
Commercial	$18,251	$18,374	$12,186
Commercial real estate	27,568	28,598	35,849
Real estate construction	160	371	168
Land development	2,267	2,309	4,105
Residential mortgage	6,589	8,921	10,407
Consumer installment	806	676	699
Home equity	2,046	2,648	2,837
Total nonaccrual loans	57,687	61,897	66,251
Accruing loans contractually past due 90 days or more as to interest or principal payments:			
Commercial	43	536	4
Commercial real estate	730	190	177
Real estate construction	—	—	—
Land development	—	—	—
Residential mortgage	—	537	196
Consumer installment	—	—	—
Home equity	622	734	874
Total accruing loans contractually past due 90 days or more as to interest or principal payments	1,395	1,997	1,251
Nonperforming TDRs:			
Commercial loan portfolio	11,218	13,414	14,587
Consumer loan portfolio	6,244	4,676	4,328
Total nonperforming TDRs	17,462	18,090	18,915
Total nonperforming loans	$76,544	$81,984	$86,417

The Corporation’s nonaccrual loans at March 31, 2014, December 31, 2013 and March 31, 2013 included $44.4 million, $37.3 million and $47.0 million, respectively, of nonaccrual TDRs.

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Impaired Loans

The following schedule presents impaired loans by classes of loans at March 31, 2014, December 31, 2013 and March 31, 2013:

	Recorded Investment	Unpaid Principal Balance	Related Valuation Allowance
	(In thousands)		
March 31, 2014			
Impaired loans with a valuation allowance:			
Commercial	$3,534	$3,704	$1,250
Commercial real estate	3,720	3,878	371
Real estate construction	—	—	—
Land development	—	—	—
Residential mortgage	19,944	19,944	444
Subtotal	27,198	27,526	2,065
Impaired loans with no related valuation allowance:			
Commercial	38,150	42,914	—
Commercial real estate	49,074	62,207	—
Real estate construction	160	366	—
Land development	4,472	7,773	—
Residential mortgage	6,589	6,589	—
Consumer installment	806	806	—
Home equity	2,046	2,046	—
Subtotal	101,297	122,701	—
Total impaired loans:			
Commercial	41,684	46,618	1,250
Commercial real estate	52,794	66,085	371
Real estate construction	160	366	—
Land development	4,472	7,773	—
Residential mortgage	26,533	26,533	444
Consumer installment	806	806	—
Home equity	2,046	2,046	—
Total	$128,495	$150,227	$2,065
December 31, 2013			
Impaired loans with a valuation allowance:			
Commercial	$2,517	$2,656	$728
Commercial real estate	2,576	2,965	353
Real estate construction	—	—	—
Land development	—	—	—
Residential mortgage	17,408	17,408	510
Subtotal	22,501	23,029	1,591
Impaired loans with no related valuation allowance:			
Commercial	38,838	44,377	—
Commercial real estate	48,220	61,444	—
Real estate construction	371	478	—

Land development	7,170	11,817	—
Residential mortgage	8,921	8,921	—
Consumer installment	676	676	—
Home equity	2,648	2,648	—
Subtotal	106,844	130,361	—
Total impaired loans:			
Commercial	41,355	47,033	728
Commercial real estate	50,796	64,409	353
Real estate construction	371	478	—
Land development	7,170	11,817	—
Residential mortgage	26,329	26,329	510
Consumer installment	676	676	—
Home equity	2,648	2,648	—
Total	$129,345	$153,390	$1,591

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	Recorded Investment	Unpaid Principal Balance	Related Valuation Allowance
	(In thousands)		
March 31, 2013			
Impaired loans with a valuation allowance:			
Commercial	$4,347	$4,931	$1,629
Commercial real estate	12,876	13,045	3,893
Real estate construction	—	—	—
Land development	—	—	—
Residential mortgage	17,296	17,296	662
Subtotal	34,519	35,272	6,184
Impaired loans with no related valuation allowance:			
Commercial	21,565	26,737	—
Commercial real estate	42,852	56,259	—
Real estate construction	372	442	—
Land development	11,247	15,510	—
Residential mortgage	10,407	10,407	—
Consumer installment	699	699	—
Home equity	2,837	2,837	—
Subtotal	89,979	112,891	—
Total impaired loans:			
Commercial	25,912	31,668	1,629
Commercial real estate	55,728	69,304	3,893
Real estate construction	372	442	—
Land development	11,247	15,510	—
Residential mortgage	27,703	27,703	662
Consumer installment	699	699	—
Home equity	2,837	2,837	—
Total	$124,498	$148,163	$6,184

The difference between an impaired loan's recorded investment and the unpaid principal balance for originated loans represents a partial charge-off resulting from a confirmed loss due to the value of the collateral securing the loan being below the loan balance and management's assessment that full collection of the loan balance is not likely, and for acquired loans that meet the definition of an impaired loan represents fair value adjustments recognized at the acquisition date attributable to expected credit losses and the discounting of expected cash flows at market interest rates. The difference between the recorded investment and the unpaid principal balance of $21.7 million, $24.0 million and $23.7 million at March 31, 2014, December 31, 2013 and March 31, 2013, respectively, includes confirmed losses (partial charge-offs) of $17.8 million, $20.2 million and $19.9 million, respectively, and fair value discount adjustments of $3.9 million, $3.8 million and $3.8 million, respectively.

Impaired loans included $11.5 million, $9.8 million and $8.6 million at March 31, 2014, December 31, 2013 and March 31, 2013, respectively, of acquired loans that were not performing in accordance with original contractual terms. Acquired loans that are not performing in accordance with contractual terms are not reported as nonperforming loans because these loans are recorded in pools at their net realizable value based on the principal and interest the Corporation expects to collect on these loans. Impaired loans also included $41.8 million, $39.6 million and $30.7 million at March 31, 2014, December 31, 2013 and March 31, 2013, respectively, of performing TDRs.

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The following schedule presents information related to impaired loans for the three months ended March 31, 2014 and 2013:

	Three Months Ended March 31, 2014	
	Average Recorded Investment	Interest Income Recognized While on Impaired Status
	(In thousands)	
Commercial	$41,607	$333
Commercial real estate	53,320	361
Real estate construction	167	—
Land development	4,643	37
Residential mortgage	26,781	303
Consumer installment	773	—
Home equity	2,168	—
Total	$129,459	$1,034

	Three Months Ended March 31, 2013	
	Average Recorded Investment	Interest Income Recognized While on Impaired Status
	(In thousands)	
Commercial	$26,953	$193
Commercial real estate	56,745	288
Real estate construction	363	2
Land development	10,914	91
Residential mortgage	28,920	295
Consumer installment	719	—
Home equity	2,962	—
Total	$127,576	$869

The following schedule presents the aging status of the recorded investment in loans by classes of loans at March 31, 2014, December 31, 2013 and March 31, 2013:

	31-60 Days Past Due	61-89 Days Past Due	Accruing Loans Past Due 90 Days or More	Non-accrual Loans	Total Past Due	Current	Total Loans
	(In thousands)						
March 31, 2014							
Originated Portfolio:							
Commercial	$6,003	$1,832	$43	$18,251	$26,129	$1,104,992	$1,131,121
Commercial real estate	4,094	1,098	730	27,568	33,490	1,095,228	1,128,718
Real estate construction	18	—	—	160	178	72,227	72,405
Land development	—	—	—	2,267	2,267	5,499	7,766
Residential mortgage	1,259	1,138	—	6,589	8,986	941,815	950,801

Consumer installment	1,950	313	—	806	3,069	670,721	673,790
Home equity	1,500	256	622	2,046	4,424	495,440	499,864
Total	$14,824	$4,637	$1,395	$57,687	$78,543	$4,385,922	$4,464,465
Acquired Portfolio:							
Commercial	$—	$—	$6,496	$—	$6,496	$71,024	$77,520
Commercial real estate	—	—	2,549	—	2,549	147,900	150,449
Real estate construction	—	—	—	—	—	12,679	12,679
Land development	—	—	2,089	—	2,089	3,906	5,995
Residential mortgage	—	—	58	—	58	11,150	11,208
Consumer installment	49	—	—	—	49	1,573	1,622
Home equity	49	—	331	—	380	28,971	29,351
Total	$98	$—	$11,523	$—	$11,621	$277,203	$288,824

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	31-60 Days Past Due	61-89 Days Past Due	Accruing Loans Past Due 90 Days or More	Non-accrual Loans	Total Past Due	Current	Total Loans
	(In thousands)						
December 31, 2013							
Originated Portfolio:							
Commercial	$4,748	$865	$536	$18,374	$24,523	$1,068,170	$1,092,693
Commercial real estate	8,560	1,604	190	28,598	38,952	1,046,235	1,085,187
Real estate construction	—	4,107	—	371	4,478	72,981	77,459
Land development	—	—	—	2,309	2,309	10,971	13,280
Residential mortgage	2,191	103	537	8,921	11,752	937,129	948,881
Consumer installment	2,630	359	—	676	3,665	639,381	643,046
Home equity	1,452	278	734	2,648	5,112	487,266	492,378
Total	$19,581	$7,316	$1,997	$61,897	$90,791	$4,262,133	$4,352,924
Acquired Portfolio:							
Commercial	$—	$—	$5,656	$—	$5,656	$77,958	$83,614
Commercial real estate	—	133	1,695	—	1,828	145,643	147,471
Real estate construction	—	—	—	—	—	12,336	12,336
Land development	—	—	2,332	—	2,332	4,454	6,786
Residential mortgage	—	—	61	—	61	11,481	11,542
Consumer installment	3	51	—	—	54	1,669	1,723
Home equity	394	—	43	—	437	30,788	31,225
Total	$397	$184	$9,787	$—	$10,368	$284,329	$294,697
March 31, 2013							
Originated Portfolio:							
Commercial	$7,948	$1,664	$4	$12,186	$21,802	$913,144	$934,946
Commercial real estate	9,195	2,541	177	35,849	47,762	920,533	968,295
Real estate construction	—	—	—	168	168	51,680	51,848
Land development	927	—	—	4,105	5,032	16,981	22,013
Residential mortgage	2,605	831	196	10,407	14,039	845,132	859,171
Consumer installment	2,038	524	—	699	3,261	535,255	538,516
Home equity	1,374	235	874	2,837	5,320	430,880	436,200
Total	$24,087	$5,795	$1,251	$66,251	$97,384	$3,713,605	$3,810,989
Acquired Portfolio:							
Commercial	$191	$—	$2,504	$—	$2,695	$100,474	$103,169
Commercial real estate	479	157	3,341	—	3,977	190,111	194,088
Real estate construction	—	—	—	—	—	13,519	13,519
Land development	—	—	2,602	—	2,602	8,025	10,627
Residential mortgage	405	—	—	—	405	12,878	13,283
Consumer installment	34	33	—	—	67	1,633	1,700
Home equity	154	—	162	—	316	37,570	37,886
Total	$1,263	$190	$8,609	$—	$10,062	$364,210	$374,272

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Loans Modified Under Troubled Debt Restructurings (TDRs)
The following schedule presents the Corporation’s loans reported as TDRs at March 31, 2014, December 31, 2013 and March 31, 2013:

	Performing TDRs	Non-Performing TDRs	Nonaccrual TDRs	Total
	(In thousands)			
March 31, 2014				
Commercial loan portfolio	$28,123	$ 11,218	$40,511	$79,852
Consumer loan portfolio	13,700	6,244	3,875	23,819
Total	$41,823	$ 17,462	$44,386	$103,671
December 31, 2013				
Commercial loan portfolio	$26,839	$ 13,414	$31,961	$72,214
Consumer loan portfolio	12,732	4,676	5,321	22,729
Total	$39,571	$ 18,090	$37,282	$94,943
March 31, 2013				
Commercial loan portfolio	$17,755	$ 14,587	$42,097	$74,439
Consumer loan portfolio	12,968	4,328	4,916	22,212
Total	$30,723	$ 18,915	$47,013	$96,651

The following schedule provides information on the Corporation's TDRs that were modified during the three months ended March 31, 2014 and 2013:

	Number of Loans	Pre-Modification Recorded Investment	Post-Modification Recorded Investment
	(Dollars in thousands)		
Three Months Ended March 31, 2014			
Commercial loan portfolio:			
Commercial	12	$8,356	$8,356
Commercial real estate	9	2,790	2,790
Land development	1	72	72
Subtotal – commercial loan portfolio	22	11,218	11,218
Consumer loan portfolio (residential mortgage)	30	987	978
Total	52	$12,205	$12,196
Three Months Ended March 31, 2013 (as revised)			
Commercial loan portfolio:			
Commercial	11	$1,606	$1,606
Commercial real estate	14	3,644	3,644
Real estate construction	2	364	364
Land development	2	432	432
Subtotal – commercial loan portfolio	29	6,046	6,046
Consumer loan portfolio (residential mortgage)	18	1,391	1,355
Total	47	$7,437	$7,401

The pre-modification and post-modification recorded investment represents amounts as of the date of loan modification. The difference between the pre-modification and post-modification recorded investment of residential mortgage TDRs represents impairment recognized by the Corporation through the provision for loan losses computed

based on a loan's post-modification present value of expected future cash flows discounted at the loan's original effective interest rate.

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The following schedule includes TDRs for which there was a payment default during the three months ended March 31, 2014 and 2013, whereby the borrower was past due with respect to principal and/or interest for 90 days or more, and the loan became a TDR during the twelve-month period prior to the default:

	Number of Loans	Principal Balance at End of Period
	(Dollars in thousands)	
Three Months Ended March 31, 2014		
Commercial loan portfolio:		
Commercial	1	$104
Commercial real estate	2	1,670
Subtotal – commercial loan portfolio	3	1,774
Consumer loan portfolio (residential mortgage)	—	—
Total	3	$1,774
Three Months Ended March 31, 2013 (as revised)		
Commercial loan portfolio:		
Commercial	17	$1,053
Commercial real estate	1	126
Real estate construction	1	160
Subtotal – commercial loan portfolio	19	1,339
Consumer loan portfolio (residential mortgage)	5	484
Total	24	$1,823

During the three months ended March 31, 2013, the Corporation had excluded nonaccrual TDRs from the schedule of TDRs that were modified during the three months ended March 31, 2013 and the schedule of TDRs for which there was a payment default during the three months ended March 31, 2013. The Corporation has revised the amounts reported for the three months ended March 31, 2013 in these schedules to include activity related to all TDRs, including nonaccrual TDRs.

Allowance for Loan Losses

The following schedule presents, by loan portfolio segment, the changes in the allowance for the three months ended March 31, 2014 and details regarding the balance in the allowance and the recorded investment in loans at March 31, 2014 by impairment evaluation method.

	Commercial Loan Portfolio	Consumer Loan Portfolio	Unallocated	Total
	(In thousands)			
Changes in allowance for loan losses for the three months ended March 31, 2014:				
Beginning balance	$44,482	$30,145	$4,445	$79,072
Provision for loan losses	960	855	(215)	1,600
Charge-offs	(1,209)	(2,263)	—	(3,472)
Recoveries	777	496	—	1,273
Ending balance	$45,010	$29,233	$4,230	$78,473
Allowance for loan losses balance at March 31, 2014 attributable to:				
Loans individually evaluated for impairment	$1,621	$444	$—	$2,065
Loans collectively evaluated for impairment	43,389	28,289	4,230	75,908
Loans acquired with deteriorated credit quality	—	500	—	500

Total	$45,010	$29,233	$4,230	$78,473
Recorded investment (loan balance) at March 31, 2014:				
Loans individually evaluated for impairment	$87,587	$19,944	$—	$107,531
Loans collectively evaluated for impairment	2,252,423	2,104,511	—	4,356,934
Loans acquired with deteriorated credit quality	246,643	42,181	—	288,824
Total	$2,586,653	$2,166,636	$—	$4,753,289

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The following schedule presents, by loan portfolio segment, details regarding the balance in the allowance and the recorded investment in loans at December 31, 2013 by impairment evaluation method.

	Commercial Loan Portfolio	Consumer Loan Portfolio	Unallocated	Total
	(In thousands)			
Allowance for loan losses balance at December 31, 2013 attributable to:				
Loans individually evaluated for impairment	$1,081	$510	$—	$1,591
Loans collectively evaluated for impairment	43,401	29,135	4,445	76,981
Loans acquired with deteriorated credit quality	—	500	—	500
Total	$44,482	$30,145	$4,445	$79,072
Recorded investment (loan balance) at December 31, 2013:				
Loans individually evaluated for impairment	$89,905	$17,408	$—	$107,313
Loans collectively evaluated for impairment	2,178,714	2,066,897	—	4,245,611
Loans acquired with deteriorated credit quality	250,207	44,490	—	294,697
Total	$2,518,826	$2,128,795	$—	$4,647,621

The following schedule presents, by loan portfolio segment, the changes in the allowance for the three months ended March 31, 2013 and details regarding the balance in the allowance and the recorded investment in loans at March 31, 2013 by impairment evaluation method.

	Commercial Loan Portfolio	Consumer Loan Portfolio	Unallocated	Total
	(In thousands)			
Changes in allowance for loan losses for the three months ended March 31, 2013:				
Beginning balance	$49,975	$29,333	$5,183	$84,491
Provision for loan losses	2,437	871	(308)	3,000
Charge-offs	(3,516)	(1,958)	—	(5,474)
Recoveries	211	606	—	817
Ending balance	$49,107	$28,852	$4,875	$82,834
Allowance for loan losses balance at March 31, 2013 attributable to:				
Loans individually evaluated for impairment	$5,522	$662	$—	$6,184
Loans collectively evaluated for impairment	43,585	27,690	4,875	76,150
Loans acquired with deteriorated credit quality	—	500	—	500
Total	$49,107	$28,852	$4,875	$82,834
Recorded investment (loan balance) at March 31, 2013:				
Loans individually evaluated for impairment	$84,650	$17,296	$—	$101,946
Loans collectively evaluated for impairment	1,892,452	1,816,591	—	3,709,043
Loans acquired with deteriorated credit quality	321,403	52,869	—	374,272
Total	$2,298,505	$1,886,756	$—	$4,185,261

The allowance attributable to acquired loans of $0.5 million at March 31, 2014, December 31, 2013 and March 31, 2013 was primarily attributable to two consumer loan pools in the acquired loan portfolio that had a decline in expected cash flows. Management determined that the overall credit quality of the acquired loan portfolio had improved at March 31, 2014, which has resulted in an improvement in expected cash flows of loan pools in the acquired commercial loan portfolio. Accordingly, management reclassified $10.0 million during the three months

ended March 31, 2014 from the nonaccretable difference to the accretable yield for these acquired commercial loan pools, which will increase amounts recognized into interest income over the estimated remaining lives of these loan pools. There were no material changes in expected cash flows for the remaining acquired loan pools at December 31, 2013 or March 31, 2013.

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Note 5: Intangible Assets

The Corporation has the following types of intangible assets: goodwill, core deposit intangible assets and mortgage servicing rights (MSRs). Goodwill and core deposit intangible assets arose as the result of business combinations or other acquisitions. MSRs arose as a result of selling residential mortgage loans in the secondary market while retaining the right to service these loans and receive servicing income over the life of the loan. Amortization is recorded on the core deposit intangible assets and MSRs. Goodwill is not amortized but is evaluated at least annually for impairment. The Corporation’s most recent annual goodwill impairment test performed as of October 31, 2013 did not indicate that an impairment of goodwill existed. The Corporation also determined that no triggering events have occurred that indicated impairment from the most recent valuation date through March 31, 2014 and that the Corporation's goodwill was not impaired at March 31, 2014.

The following table shows the net carrying value of the Corporation’s intangible assets:

	March 31, 2014	December 31, 2013	March 31, 2013
	(In thousands)		
Goodwill	$120,164	$120,164	$120,164
Other intangible assets:			
Core deposit intangible assets	$9,556	$10,001	$11,417
Mortgage servicing rights	3,316	3,423	3,485
Total other intangible assets	$12,872	$13,424	$14,902

The following table sets forth the carrying amount, accumulated amortization and amortization expense of core deposit intangible assets that are amortizable and arose from business combinations or other acquisitions:

	March 31, 2014	December 31, 2013	March 31, 2013
	(In thousands)		
Gross original amount	$18,659	$18,659	$18,659
Accumulated amortization	9,103	8,658	7,242
Carrying amount	$9,556	$10,001	$11,417
Amortization expense for the three months ended March 31	$445		$493

The estimated future amortization expense on core deposit intangible assets for periods ending after March 31, 2014 is as follows: 2014 — $1.3 million; 2015 — $1.7 million; 2016 — $1.5 million; 2017 — $1.2 million; 2018 — $1.2 million; 2019 and thereafter — $2.7 million.

The following shows the net carrying value and fair value of MSRs and the total loans that the Corporation is servicing for others:

	March 31, 2014	December 31, 2013	March 31, 2013
	(In thousands)		
Net carrying value of MSRs	$3,316	$3,423	$3,485
Fair value of MSRs	$6,706	$6,878	$5,326
Loans serviced for others that have servicing rights capitalized	$877,530	$886,730	$907,823

The following table shows the activity for capitalized MSRs:

	Three Months Ended March 31,	
	2014	2013
	(In thousands)	
Balance at beginning of period	$3,423	$3,478
Additions	143	515

Amortization	(250)	(508)
Balance at end of period	$3,316	$3,485

There was no impairment valuation allowance recorded on MSRs as of March 31, 2014, December 31, 2013 or March 31, 2013.

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Note 6: Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive loss, net of related tax benefit/expense, were as follows:

	March 31, 2014	December 31, 2013	March 31, 2013
	(In thousands)		
Net unrealized gains (losses) on investment securities – available-for-sale, net of related tax expense (benefit) of $(478) at March 31, 2014, $(1,335) at December 31, 2013 and $2,232 at March 31, 2013	$(887)	$(2,480)	$4,143
Pension and other postretirement benefits adjustment, net of related tax benefit of $9,915 at March 31, 2014, $9,714 at December 31, 2013 and $18,726 at March 31, 2013	(18,414)	(18,040)	(34,777)
Accumulated other comprehensive loss	$(19,301)	$(20,520)	$(30,634)

Note 7: Regulatory Capital

Federal and state banking regulations place certain restrictions on the transfer of assets, in the form of dividends, loans, or advances, from Chemical Bank to the Corporation. As of March 31, 2014, substantially all of the assets of Chemical Bank were restricted from transfer to the Corporation in the form of loans or advances. Dividends from Chemical Bank are the principal source of funds for the Corporation. At March 31, 2014, Chemical Bank was "well-capitalized" as defined by federal banking regulations. In addition to the statutory limits, the Corporation considers the overall financial and capital position of Chemical Bank prior to making any cash dividend decisions.

The Corporation and Chemical Bank are subject to various regulatory capital requirements administered by federal banking agencies. Under these capital requirements, Chemical Bank must meet specific capital guidelines that involve quantitative measures of assets and certain off-balance sheet items as calculated under regulatory accounting practices. In addition, capital amounts and classifications are subject to qualitative judgments by regulators. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Corporation’s consolidated financial statements.

Quantitative measures established by regulation to ensure capital adequacy require minimum ratios of Tier 1 capital to average assets (Leverage Ratio) and Tier 1 and Total capital to risk-weighted assets. These capital guidelines assign risk weights to on- and off-balance sheet items in arriving at total risk-weighted assets. Minimum capital levels are based upon the perceived risk of various asset categories and certain off-balance sheet instruments. Risk weighted assets of the Corporation totaled $4.76 billion, $4.64 billion and $4.22 billion at March 31, 2014, December 31, 2013 and March 31, 2013, respectively.

At March 31, 2014, December 31, 2013 and March 31, 2013, Chemical Bank’s capital ratios exceeded the quantitative capital ratios required for an institution to be considered “well-capitalized.” Significant factors that may affect capital adequacy include, but are not limited to, a disproportionate growth in assets versus capital and a change in mix or credit quality of assets.

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The summary below compares the Corporation's and Chemical Bank's actual capital amounts and ratios with the quantitative measures established by regulation to ensure capital adequacy:

	Actual			Minimum Required for Capital Adequacy Purposes			Required to be Well Capitalized Under Prompt Corrective Action Regulations		
	Capital Amount	Ratio		Capital Amount	Ratio		Capital Amount	Ratio	
	(Dollars in thousands)								
March 31, 2014									
Total Capital to Risk-Weighted Assets:									
Corporation	$659,644	13.8	%	$381,146	8.0	%	N/A	N/A	
Chemical Bank	589,254	12.4		380,542	8.0		$475,678	10.0	%
Tier 1 Capital to Risk-Weighted Assets:									
Corporation	599,856	12.6		190,573	4.0		N/A	N/A	
Chemical Bank	529,560	11.1		190,271	4.0		285,407	6.0	
Leverage Ratio:									
Corporation	599,856	9.9		243,070	4.0		N/A	N/A	
Chemical Bank	529,560	8.7		242,939	4.0		303,673	5.0	
December 31, 2013									
Total Capital to Risk-Weighted Assets:									
Corporation	$649,836	14.0	%	$371,465	8.0	%	N/A	N/A	
Chemical Bank	579,494	12.5		370,881	8.0		$463,601	10.0	%
Tier 1 Capital to Risk-Weighted Assets:									
Corporation	591,535	12.7		185,732	4.0		N/A	N/A	
Chemical Bank	521,283	11.2		185,440	4.0		278,160	6.0	
Leverage Ratio:									
Corporation	591,535	9.9		239,010	4.0		N/A	N/A	
Chemical Bank	521,283	8.7		238,884	4.0		298,605	5.0	
March 31, 2013									
Total Capital to Risk-Weighted Assets:									
Corporation	$561,092	13.3	%	$337,508	8.0	%	N/A	N/A	
Chemical Bank	545,361	13.0		336,576	8.0		$420,720	10.0	%
Tier 1 Capital to Risk-Weighted Assets:									
Corporation	507,985	12.0		168,754	4.0		N/A	N/A	
Chemical Bank	492,398	11.7		168,288	4.0		252,432	6.0	
Leverage Ratio:									
Corporation	507,985	8.8		230,992	4.0		N/A	N/A	
Chemical Bank	492,398	8.5		230,544	4.0		288,179	5.0	

Note 8: Fair Value Measurements

Fair value, as defined by GAAP, is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability is not adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for market activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact and (iv) willing to transact.

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The Corporation utilizes fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. Investment securities — available-for-sale and loans held-for-sale are recorded at fair value on a recurring basis. Additionally, the Corporation may be required to record other assets, such as impaired loans, goodwill, other intangible assets, other real estate and repossessed assets, at fair value on a nonrecurring basis. These nonrecurring fair value adjustments typically involve the application of lower of cost or market accounting or write-downs of individual assets.
The Corporation determines the fair value of its financial instruments based on a three-level hierarchy established by GAAP. The classification and disclosure of assets and liabilities within the hierarchy is based on whether the inputs to the valuation methodology used for measurement are observable or unobservable. Observable inputs reflect market-derived or market-based information obtained from independent sources, while unobservable inputs reflect management’s estimates about market data. The three levels of inputs that may be used to measure fair value within the GAAP hierarchy are as follows:

Level 1	Valuation is based upon quoted prices for identical instruments traded in active markets. Level 1 valuations for the Corporation would include U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets. Valuations are obtained from a third-party pricing service for these investment securities.
Level 2	Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market. Level 2 valuations for the Corporation include government sponsored agency securities, including securities issued by the Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Federal Farm Credit Bank, Student Loan Marketing Corporation and the Small Business Administration, securities issued by certain state and political subdivisions, residential mortgage-backed securities, collateralized mortgage obligations, corporate bonds and preferred stock. Valuations are obtained from a third-party pricing service for these investment securities.
Level 3	Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models, yield curves and similar techniques. The determination of fair value requires management judgment or estimation and generally is corroborated by external data, which includes third-party pricing services. Level 3 valuations for the Corporation include securities issued by certain state and political subdivisions, trust preferred investment securities, impaired loans, goodwill, core deposit intangible assets, MSRs and other real estate and repossessed assets.

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. These valuation methodologies were applied to all of the Corporation’s financial assets and financial liabilities carried at fair value and all financial instruments disclosed at fair value. In general, fair value is based upon quoted market prices, where available. If quoted market prices are not available, fair value is based upon third-party pricing services when available. Fair value may also be based on internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be required to record financial instruments at fair value. Any such valuation adjustments are applied consistently over time. The Corporation’s valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Corporation’s valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. Furthermore, the fair value amounts may change significantly after the date of the statement of financial position from the amounts reported in the

consolidated financial statements and related notes.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

Investment securities — available-for-sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are generally measured using independent pricing models or other model-based valuation techniques that include market inputs, such as benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, reference data and industry and economic events.

The Corporation elected the fair value option for all residential mortgage loans held-for-sale originated on or after July 1, 2012. Accordingly, loans held-for-sale are recorded at fair value on a recurring basis. The fair values of loans held-for-sale are based on the market price for similar loans sold in the secondary market, and therefore, are classified as Level 2 valuations.

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Disclosure of Recurring Basis Fair Value Measurements
For assets measured at fair value on a recurring basis, quantitative disclosures about the fair value measurements for each major category of assets were as follows:

	Fair Value Measurements – Recurring Basis			
	Quoted Prices In Active Markets for Identical Assets (Level 1) (In thousands)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
March 31, 2014				
Investment securities – available-for-sale:				
Government sponsored agencies	$—	$91,610	$—	$91,610
State and political subdivisions	—	43,777	—	43,777
Residential mortgage-backed securities	—	288,738	—	288,738
Collateralized mortgage obligations	—	166,719	—	166,719
Corporate bonds	—	65,415	—	65,415
Preferred stock	—	1,559	—	1,559
Total investment securities – available-for-sale	—	657,818	—	657,818
Loans held-for-sale	—	3,814	—	3,814
Total assets measured at fair value on a recurring basis	$—	$661,632	$—	$661,632
December 31, 2013				
Investment securities – available-for-sale:				
Government sponsored agencies	$—	$93,763	$—	$93,763
State and political subdivisions	—	43,798	—	43,798
Residential mortgage-backed securities	—	299,366	—	299,366
Collateralized mortgage obligations	—	180,941	—	180,941
Corporate bonds	—	65,275	—	65,275
Preferred stock	—	1,427	—	1,427
Total investment securities – available-for-sale	—	684,570	—	684,570
Loans held-for-sale	—	5,219	—	5,219
Total assets measured at fair value on a recurring basis	$—	$689,789	$—	$689,789
March 31, 2013				
Investment securities – available-for-sale:				
Government sponsored agencies	$—	$95,379	$—	$95,379
State and political subdivisions	—	49,249	—	49,249
Residential mortgage-backed securities	—	239,192	—	239,192
Collateralized mortgage obligations	—	247,668	—	247,668
Corporate bonds	—	65,548	—	65,548
Preferred stock	—	1,831	—	1,831
Total investment securities – available-for-sale	—	698,867	—	698,867
Loans held-for-sale	—	14,850	—	14,850

Total assets measured at fair value on a recurring basis	$—	$713,717	$—	$713,717

There were no liabilities recorded at fair value on a recurring basis at March 31, 2014, December 31, 2013 or March 31, 2013.

Assets and Liabilities Recorded at Fair Value on a Nonrecurring Basis

The Corporation does not record loans held for investment at fair value on a recurring basis. However, from time to time, a loan is considered impaired and an allocation of the allowance (valuation allowance) may be established or a portion of the loan is charged off. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. The fair value of impaired loans is estimated using one of several methods, including the loan's observable market price, the fair value of the collateral or the present value of the expected future cash flows discounted at the loan's effective interest rate. Those impaired loans not requiring a valuation allowance represent loans for which the fair value of the expected repayments or collateral exceed the remaining carrying amount of such loans. Impaired loans where a valuation allowance is established or a portion of the loan is charged off based on the fair value of collateral are subject to nonrecurring fair value measurement and require classification in the fair value hierarchy. The Corporation records impaired loans as Level 3 valuations as there is generally no observable market price or independent appraised value, or management determines the fair value of the collateral is further impaired below the appraised value. When management determines the fair value of the collateral is further impaired below appraised value, discount factors ranging between 70% and 80% of the appraised value are used depending on the nature of the collateral and the age of the most recent appraisal.

Goodwill is subject to impairment testing on an annual basis. The assessment of goodwill for impairment requires a significant degree of judgment. In the event the assessment indicates that it is more-likely-than-not that the fair value is less than the carrying value, the asset is considered impaired and recorded at fair value. Goodwill that is impaired and subject to nonrecurring fair value measurements is a Level 3 valuation. At March 31, 2014, December 31, 2013 and March 31, 2013, no goodwill was impaired, and therefore, goodwill was not recorded at fair value on a nonrecurring basis.

Other intangible assets consist of core deposit intangible assets and MSRs. These items are both recorded at fair value when initially recorded. Subsequently, core deposit intangible assets are amortized primarily on an accelerated basis over periods ranging from ten to fifteen years and are subject to impairment testing whenever events or changes in circumstances indicate that the carrying amount exceeds the fair value of the asset. If core deposit intangible asset impairment is identified, the Corporation classifies impaired core deposit intangible assets subject to nonrecurring fair value measurements as Level 3 valuations. The fair value of MSRs is initially estimated using a model that calculates the net present value of estimated future cash flows using various assumptions, including prepayment speeds, the discount rate and servicing costs. If the valuation model reflects a value less than the carrying value, MSRs are adjusted to fair value, as determined by the model, through a valuation allowance. The Corporation classifies MSRs subject to nonrecurring fair value measurements as Level 3 valuations. At March 31, 2014, December 31, 2013 and March 31, 2013, there was no impairment identified for core deposit intangible assets or MSRs and, therefore, no other intangible assets were recorded at fair value on a nonrecurring basis.

The carrying amounts for other real estate (ORE) and repossessed assets (RA) are reported in the consolidated statements of financial position under "Interest receivable and other assets." ORE and RA include real estate and other types of assets repossessed by the Corporation. ORE and RA are recorded at the lower of cost or fair value upon the transfer of a loan to ORE or RA and, subsequently, ORE and RA continue to be measured and carried at the lower of cost or fair value. Fair value is based upon independent market prices, appraised values of the property or management's estimation of the value of the property. The Corporation records ORE and RA as Level 3 valuations as management generally determines that the fair value of the property is impaired below the appraised value. When management determines the fair value of the property is further impaired below appraised value, discount factors ranging between 70% and 75% of the appraised value are used depending on the nature of the property and the age of the most recent appraisal.

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Disclosure of Nonrecurring Basis Fair Value Measurements

For assets measured at fair value on a nonrecurring basis, quantitative disclosures about fair value measurements for each major category of assets were as follows:

	Fair Value Measurements – Nonrecurring Basis			
	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
	(In thousands)			
March 31, 2014				
Impaired originated loans	$—	$—	$29,461	$29,461
Other real estate/repossessed assets	—	—	10,056	10,056
Total	$—	$—	$39,517	$39,517
December 31, 2013				
Impaired originated loans	$—	$—	$28,852	$28,852
Other real estate/repossessed assets	—	—	9,776	9,776
Total	$—	$—	$38,628	$38,628
March 31, 2013				
Impaired originated loans	$—	$—	$47,073	$47,073
Other real estate/repossessed assets	—	—	18,194	18,194
Total	$—	$—	$65,267	$65,267

There were no liabilities recorded at fair value on a nonrecurring basis at March 31, 2014, December 31, 2013 and March 31, 2013.

Disclosures about Fair Value of Financial Instruments

GAAP requires disclosures about the estimated fair value of the Corporation's financial instruments, including those financial assets and liabilities that are not measured and reported at fair value on a recurring or nonrecurring basis. However, the method of estimating fair value for certain financial instruments, such as loans, that are not required to be measured on a recurring or nonrecurring basis, as prescribed by ASC 820, Fair Value Measurements and Disclosures, does not incorporate the exit-price concept of fair value. The Corporation utilized the fair value hierarchy in computing the fair values of its financial instruments. In cases where quoted market prices were not available, the Corporation employed present value methods using unobservable inputs requiring management's judgment to estimate the fair values of its financial instruments, which are considered Level 3 valuations. These Level 3 valuations are affected by the assumptions made and, accordingly, do not necessarily indicate amounts that could be realized in a current market exchange. It is also the Corporation's general practice and intent to hold the majority of its financial instruments until maturity and, therefore, the Corporation does not expect to realize the estimated amounts disclosed. The methodologies for estimating the fair value of financial assets and financial liabilities on a recurring or nonrecurring basis are discussed above. At March 31, 2014, December 31, 2013 and March 31, 2013, the estimated fair values of cash and cash equivalents, interest receivable and interest payable approximated their carrying values at those dates. The methodologies for other financial assets and financial liabilities follow.

Fair value measurement for investment securities — available-for-sale that are not measured at fair value on a recurring basis, which previously consisted of fixed-rate cumulative preferred stock issued by a bank holding company under the U.S. Government’s Troubled Asset Relief Program (TARP) with no maturity date, was based on cost. This preferred stock was not traded on a public exchange and did not have a readily determinable fair value. Accordingly,

the Corporation had recorded this preferred stock as a cost-method asset as prescribed by ASC Topic 325-20, Cost Method Investments. The issuer redeemed this preferred stock during the second quarter of 2013. Because no impairment indicators were present at March 31, 2013, the Corporation was not required to estimate the fair value of this preferred stock.

Fair value measurement for investment securities — held-to-maturity is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques that include market inputs such as benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, reference data and industry and economic events. Fair value measurements using Level 2 valuations of investment securities — held-to-maturity include the majority of the Corporation's investment securities issued by state and political subdivisions. Level 3 valuations include certain securities issued by state and political subdivisions and trust preferred investment securities. After reviewing the assumptions used to measure the fair value for its trust preferred investment securities, the Corporation transferred its trust preferred investment securities from nonrecurring Level 2 assets to nonrecurring Level 3 assets during the second quarter of 2013.

Fair value measurements of nonmarketable equity securities, which consisted of Federal Home Loan Bank (FHLB) and Federal Reserve Bank (FRB) stock, are based on their redeemable value, which is cost. The market for these securities is restricted to the issuer of the stock and subject to impairment evaluation. It is not practicable to determine the fair value of these securities within the fair value hierarchy due to the restrictions placed on their transferability.

Loans held-for-sale are carried at fair value, as the Corporation elected the fair value option on these loans. The fair values of loans held-for-sale are based on the market price for similar loans sold in the secondary market, and therefore, are classified as Level 2 valuations.

The fair value of variable interest rate loans that reprice regularly with changes in market interest rates are based on carrying values. The fair values for fixed interest rate loans are estimated using discounted cash flow analyses, using the Corporation’s interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. The resulting fair value amounts are adjusted to estimate the impact of changes in the credit quality of borrowers after the loans were originated. The fair value measurements for loans are Level 3 valuations.

The fair values of deposit accounts without defined maturities, such as interest- and noninterest-bearing checking, savings and money market accounts, are equal to the amounts payable on demand. Fair value measurements for fixed-interest rate time deposits with defined maturities are based on the discounted value of contractual cash flows, using the Corporation’s interest rates currently being offered for deposits of similar maturities, and are Level 3 valuations. The fair values for variable-interest rate time deposits with defined maturities approximate their carrying amounts.

Short-term borrowings consist of securities sold under agreements to repurchase. Fair value measurements for short-term borrowings are based on the present value of future estimated cash flows using current interest rates offered to the Corporation for debt with similar terms and are Level 2 valuations.

Fair value measurements for FHLB advances are estimated based on the present value of future estimated cash flows using current interest rates offered to the Corporation for debt with similar terms and are Level 2 valuations.

The Corporation’s unused commitments to extend credit, standby letters of credit and loan commitments have no carrying amount and have been estimated to have no realizable fair value. Historically, a majority of the unused commitments to extend credit have not been drawn upon and, generally, the Corporation does not receive fees in connection with these commitments other than standby letter of credit fees, which are not significant.

Fair value measurements have not been made for items that are not defined by GAAP as financial instruments, including such items as the value of the Corporation’s Wealth Management department and the value of the Corporation’s core deposit base. The Corporation believes it is impractical to estimate a representative fair value for these types of assets, even though management believes they add significant value to the Corporation.

Chemical Financial Corporation
Notes to Consolidated Financial Statements (Unaudited)
March 31, 2014

A summary of carrying amounts and estimated fair values of the Corporation's financial instruments included in the consolidated statements of financial position was as follows:

	Level in Fair Value Measurement Hierarchy	March 31, 2014		December 31, 2013		March 31, 2013	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
		(In thousands)					
Assets:							
Cash and cash equivalents	Level 1	$382,385	$382,385	$310,788	$310,788	$578,726	$578,726
Investment securities:							
Available-for-sale	Level 2	657,818	657,818	684,570	684,570	698,867	698,867
Available-for-sale	NA	—	—	—	—	4,755	4,755
Held-to-maturity	Level 2	267,599	265,947	263,405	262,021	257,749	261,405
Held-to-maturity	Level 3	10,500	6,460	10,500	6,250	—	—
Nonmarketable equity securities	NA	25,572	25,572	25,572	25,572	25,572	25,572
Loans held-for-sale	Level 2	3,814	3,814	5,219	5,219	14,850	14,850
Net loans	Level 3	4,674,816	4,688,814	4,568,549	4,575,532	4,102,427	4,123,585
Interest receivable	Level 2	16,945	16,945	15,748	15,748	16,960	16,960
Liabilities:							
Deposits without defined maturities	Level 2	$3,868,700	$3,868,700	$3,790,454	$3,790,454	$3,574,832	$3,574,832
Time deposits	Level 3	1,362,593	1,371,312				