CHEMICAL FINANCIAL CORP
Form 10-K
February 26, 2016

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

þ Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015.
or
¨ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from _____ to _____.
Commission File Number: 000-08185
CHEMICAL FINANCIAL CORPORATION
(Exact Name of Registrant as Specified in Its Charter)

Michigan	38-2022454
(State or Other Jurisdiction of Incorporation or Organization)	(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)
Securities Registered Pursuant to Section 12(b) of the Act:

Common Stock, $1 Par Value Per Share	The NASDAQ Stock Market
(Title of Class)	(Name of each exchange on which registered)

Securities Registered Pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No þ
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 Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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 þ	Accelerated filer ¨	Non-accelerated filer ¨	Smaller reporting company ¨
		(Do not check if a smaller reporting company)	

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No þ

The aggregate market value of the registrant's outstanding voting common stock held by non-affiliates of the registrant as of June 30, 2015, determined using the closing price of the registrant's common stock on June 30, 2015 of $33.06 per share, as reported on The NASDAQ Stock Market®, was $1.19 billion. The number of shares outstanding of the registrant's Common Stock, $1 par value per share, as of January 31, 2016, was 38,168,801 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement of Chemical Financial Corporation for the April 18, 2016 annual shareholders' meeting are incorporated by reference into Part III of this Form 10-K.

CHEMICAL FINANCIAL CORPORATION
ANNUAL REPORT ON FORM 10-K
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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, the impact of acquisition transactions on the Corporation's business, 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 merger with Talmer Bancorp, Inc. (Talmer), the expected costs to be incurred and cost savings to be realized in connection with the transaction, the expected impact of the transaction on the Corporation's future financial performance and consequences of the integration of Talmer into the Corporation.

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

- Completion of the transaction is dependent on, among other things, receipt of regulatory approvals and receipt of the Corporation's and Talmer's 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.
- 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 Talmer's business and operations into the Corporation, which will include conversion of Talmer's operating systems and procedures, may take longer than anticipated or be more costly than anticipated or have unanticipated adverse results relating to the Corporation's or Talmer'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 than expected and

customer attrition may be greater than expected.

In addition, risk factors include, but are not limited to, the risk factors described in Item 1A of this report. 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.

Additional Information about the Transaction

The Corporation will file a registration statement on Form S-4 with the Securities and Exchange Commission (SEC) to register the securities that the Talmer shareholders will receive if the transaction is consummated. The registration statement will contain a prospectus for the Corporation and a joint proxy statement to be used by the Corporation and Talmer to solicit the required approvals of their respective shareholders of the merger and other relevant documents concerning the transaction. Chemical and Talmer may also file other documents with the SEC concerning the proposed merger. Before making an investment or voting decision, investors and shareholders of the Corporation and Talmer are urged to read the registration statement, the prospectus and joint proxy statement, and any other relevant documents when they become available because they will contain important information about the Corporation, Talmer, and the transaction. Investors will be able to obtain these documents free of charge at the SEC’s website at www.sec.gov. Copies of the documents filed with the SEC in connection with the merger can also be obtained, when available, without charge, from the Corporation’s website at www.chemicalbankmi.com, or by contacting Chemical Financial Corporation, 235 East Main Street, P.O. Box 569, Midland, MI 48640-0569, Attention: Ms. Lori A. Gwizdala, Investor Relations, telephone 800-867-9757, or at Talmer’s website at www.talmerbank.com, or by contacting Talmer Bancorp, Inc., 2301 West Big Beaver Road, Suite 525, Troy, Michigan 48084, Attention: Mr. Brad Adams, Investor Relations, telephone 248-498-2862.

Participants in the Merger Solicitation

The Corporation and Talmer, and their respective directors, executive officers, and certain other members of management and employees, may be soliciting proxies from the Corporation and Talmer shareholders in favor of the transaction. Information regarding the persons who may, under the rules of the SEC, be considered participants in the solicitation of the Corporation and Talmer shareholders in connection with the proposed transaction will be set forth in the prospectus and joint proxy statement when it is filed with the SEC. Free copies of this document may be obtained as described above. Information about the Corporation's directors and executive officers can be found in the Corporation's definitive proxy statement in connection with its 2015 annual meeting of shareholders, as filed with the SEC on March 6, 2015, and other documents subsequently filed by the Corporation with the SEC. Information about Talmer’s directors and executive officers can be found in Talmer’s definitive proxy statement in connection with its 2015 annual meeting of shareholders, as filed with the SEC on April 27, 2015, and other documents subsequently filed by Talmer with the SEC. Additional information regarding the interests of such participants will be included in the prospectus and joint proxy statement and other relevant documents regarding the merger filed with the SEC when they become available.

PART I.

Item 1. Business.

General Business

Chemical Financial Corporation (Corporation), headquartered in Midland, Michigan, is a financial holding company registered under the Bank Holding Company Act of 1956 and incorporated in the State of Michigan. At December 31, 2015, the Corporation's consolidated total assets, loans, deposits and shareholders' equity were $9.19 billion, $7.27 billion, $7.46 billion and $1.02 billion, respectively, and the Corporation employed approximately 2,100 full-time equivalent employees. For more information about the Corporation's financial condition and results of operations, see the consolidated financial statements and related notes included in Part II, Item 8 of this report.

The Corporation was incorporated in August 1973. On June 30, 1974, the Corporation acquired Chemical Bank and Trust Company (CBT) pursuant to a reorganization in which the former shareholders of CBT became shareholders of the Corporation. CBT's name was changed to Chemical Bank on December 31, 2005. In addition to the acquisition of CBT, the Corporation has acquired 24 community banks and 36 other branch bank offices through December 31, 2015. The Corporation's most recent transactions include the acquisitions of Lake Michigan Financial Corporation (Lake Michigan) and Monarch Community Bancorp, Inc. (Monarch) during the second quarter of 2015 and the acquisition of Northwestern Bancorp, Inc. (Northwestern) during the fourth quarter of 2014. In addition, on January 25, 2016, the Corporation entered into an Agreement and Plan of Merger with Talmer Bancorp, Inc. (Talmer). Completion of the merger is subject to regulatory approval and the approval of the Corporation's and Talmer's shareholders, in addition to satisfaction of other customary closing conditions. These transactions are discussed in more detail under the subheading "Mergers, Acquisitions and Branch Closings" included in Management's Discussion and Analysis of Financial Condition and Results of Operations.

The Corporation's business is concentrated in a single industry segment - commercial banking. The Corporation conducts its commercial banking activity through a single commercial bank subsidiary, Chemical Bank. Chemical Bank offers a full range of traditional banking and fiduciary products and services. These include business and personal checking accounts, savings and individual retirement accounts, time deposit instruments, electronically accessed banking products, residential and commercial real estate financing, commercial lending, consumer financing, debit cards, safe deposit box services, money transfer services, automated teller machines, access to insurance and investment products, corporate and personal wealth management services and other banking services. Chemical Bank operated through an internal organizational structure of four regional banking units and 18 community banking units as of December 31, 2015. In addition, the Corporation owns, directly or indirectly, various non-bank operating and non-operating subsidiaries.

The principal markets for the Corporation's products and services are the communities in Michigan where Chemical Bank's branches are located and the areas surrounding these communities. As of December 31, 2015, the Corporation and Chemical Bank served these markets through 185 banking offices located in 47 counties in Michigan. In addition to the banking offices, Chemical Bank operated three loan production offices and over 200 automated teller machines, both on- and off-bank premises, as of December 31, 2015.

A summary of the composition of the Corporation's loan portfolio at December 31, 2015, 2014 and 2013 was as follows:

	December 31,								
	2015			2014			2013		
	Amount	Percent of Total		Amount	Percent of Total		Amount	Percent of Total	
	(Dollars in millions)								
Composition of Loans:									
Commercial	$1,905.9	26	%	$1,354.9	24	%	$1,176.3	25	%
Commercial real estate	2,112.2	29		1,557.6	27		1,232.7	27	
Real estate construction	210.2	3		152.7	3		89.8	2	
Land development	21.8	—		18.8	—		20.1	—	
Residential mortgage	1,429.6	20		1,110.4	19		960.4	21	
Consumer installment	877.5	12		829.6	15		644.8	14	

Home equity	713.9	10		664.2	12		523.6	11
Total composition of loans	$7,271.1	100	%	$5,688.2	100	%	$4,647.7	100 %

The Corporation's loan portfolio totaled $7.27 billion at December 31, 2015, compared to $5.69 billion and $4.65 billion at December 31, 2014 and 2013, respectively. The Corporation's loan portfolio increased $1.58 billion, or 28%, during 2015, with commercial loans increasing $551 million, or 41%, commercial real estate loans increasing $555 million, or 36%, real estate construction increasing $57 million, or 38%, residential mortgage loans increasing $319 million, or 29%, consumer installment

loans increasing $48 million, or 6%,home equity loans increasing $50 million, or 7%, and land development loans increasing $3 million, or 17%. The growth in loans during 2015 was attributable to $1.11 billion of loans acquired in the Lake Michigan and Monarch transactions and $476 million of organic loan growth. The Corporation's loan portfolio increased $1.04 billion, or 22%, during 2014, with the increase attributable to $475 million of loans acquired in the Northwestern transaction and $565 million of organic loan growth. The Corporation's organic loan growth during 2015 and 2014 was the result of a combination of improving economic conditions in Michigan and the Corporation increasing its loan market share in its lending markets. The Corporation's loan portfolio is not concentrated in any one industry.

The principal source of revenue for the Corporation is interest income and fees on loans, which accounted for 73%, 72% and 71% of total revenue in 2015, 2014 and 2013, respectively. The Corporation has no foreign loans, assets or activities. No material part of the business of the Corporation or Chemical Bank is dependent upon a single customer or very few customers. Interest income on investment securities, services charges and fees on deposit accounts and wealth management revenue are also significant sources of revenue. Interest income on investment securities accounted for 5% of total revenue in 2015 and 6% of total revenue in both 2014 and 2013. Services charges and fees on deposit accounts accounted for 7% of total revenue in 2015 and 8% of total revenue in both 2014 and 2013. Wealth management revenue accounted for 6% of total revenue in both 2015 and 2014 and 5% of total revenue in 2013.

The Corporation offers services through the Wealth Management department of Chemical Bank. These services include trust, investment management and custodial services; financial and estate planning; and retirement and employee benefit programs. The Wealth Management department earns revenue largely from fees based on the market value of those assets under management, which can fluctuate as the market fluctuates. The Wealth Management department had assets under custodial and management arrangements of $3.71 billion, $3.73 billion and $2.51 billion as of December 31, 2015, 2014 and 2013, respectively. The Wealth Management department also sells investment products (largely annuity products and mutual funds) through its Chemical Financial Advisors program. Customer assets within the Chemical Financial Advisors program were $873 million, $878 million and $737 million as of December 31, 2015, 2014 and 2013, respectively. The growth in assets under management by Chemical Bank's Wealth Management department and assets within the Chemical Financial Advisors program during 2014 was largely attributable to the Northwestern transaction.

The nature of the business of Chemical Bank is such that it holds title to numerous parcels of real property. These properties are primarily owned for branch offices. However, the Corporation and Chemical Bank may hold properties for other business purposes, as well as on a temporary basis for properties taken in, or in lieu of, foreclosure to satisfy loans in default. Under current state and federal laws, present and past owners of real property may be exposed to liability for the cost of clean up of contamination on or originating from those properties, even if they are wholly innocent of the actions that caused the contamination. These liabilities could exceed the value of the contaminated property and could be material to the financial condition of the Corporation.

Competition

The business of banking is highly competitive. The principal methods of competition for financial services are price (interest rates paid on deposits, interest rates charged on loans and fees charged for services) and service (convenience and quality of services rendered to customers). In addition to competition from other commercial banks, banks face significant competition from non-bank financial institutions, including savings and loan associations, credit unions, finance companies, insurance companies and investment firms. Credit unions and finance companies are particularly significant competitors in the consumer loan market. Banks also compete for deposits with a broad range of other types of investments, including mutual funds and annuities.

Supervision and Regulation

The Corporation and Chemical Bank are subject to extensive supervision and regulation under various federal and state laws. The supervisory and regulatory framework is intended primarily for the protection of depositors and the banking system as a whole, and not for the protection of shareholders and creditors.

Banks are subject to a number of federal and state laws and regulations that have a material impact on their business. These include, among others, minimum capital requirements, state usury laws, state laws relating to fiduciaries, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act), the Truth in Lending Act, the Truth in Savings Act, the Equal Credit Opportunity Act, the Fair Housing Act, the Fair Credit Reporting Act, the

Expedited Funds Availability Act, the Community Reinvestment Act, the Real Estate Settlement Procedures Act, the USA Patriot Act, the Bank Secrecy Act, the Foreign Account Tax Compliance Act, Office of Foreign Assets Controls regulations, electronic funds transfer laws, redlining laws, predatory lending laws, laws prohibiting unfair and deceptive acts or practices, antitrust laws, environmental laws, anti-money laundering laws and privacy laws. These laws and regulations can have a significant effect on the operating and financial results of banks.

A summary of significant elements of some of the laws, regulations and regulatory policies applicable to the Corporation and Chemical Bank follows below. The descriptions are qualified in their entirety by reference to the full text of the statutes, regulations and policies that are described. These statutes, regulations and policies are continually subject to review by Congress, state legislatures and federal and state regulatory agencies. A change in statutes, regulations or regulatory policies applicable to the Corporation and Chemical Bank could have a material effect on the business of the Corporation and Chemical Bank.

Regulatory Agencies

The Corporation is a legal entity separate and distinct from Chemical Bank. The Corporation is regulated by the Federal Reserve Board (FRB) as a financial holding company and a bank holding company under the Bank Holding Company Act of 1956 (BHC Act). The BHC Act provides for general regulation of financial holding companies by the FRB and functional regulation of banking activities by banking regulators. The Corporation is also under the jurisdiction of the Securities and Exchange Commission (SEC) and is subject to the disclosure and regulatory requirements of the Securities Act of 1933 and the Securities Exchange Act of 1934. The Corporation's common stock is traded on The NASDAQ Stock Market® (NASDAQ) under the symbol CHFC and is subject to the NASDAQ Listing Rules.

Chemical Bank is chartered by the State of Michigan and supervised, examined and regulated by the Michigan Department of Insurance and Financial Services (DIFS). Chemical Bank, as a member of the Federal Reserve System, is also supervised, examined and regulated by the FRB. Deposits of Chemical Bank are insured by the Federal Deposit Insurance Corporation (FDIC) to the maximum extent provided by law.

Bank Holding Company Activities

In general, the BHC Act limits the business of bank holding companies to banking, managing or controlling banks and other activities that the FRB has determined to be closely related to the business of banking. In addition, bank holding companies that qualify and elect to be financial holding companies may engage in any activities that are financial in nature or complementary to a financial activity and do not pose a substantial risk to the safety and soundness of depository institutions or the financial system without prior approval of the FRB. Activities that are financial in nature include securities underwriting and dealing, insurance underwriting and making merchant banking investments.

In order for the Corporation to maintain financial holding company status, both the Corporation and Chemical Bank must be categorized as "well-capitalized" and "well-managed" under applicable regulatory guidelines. If the Corporation or Chemical Bank ceases to meet these requirements, the FRB may impose corrective capital and/or managerial requirements and place limitations on the Corporation's ability to conduct the broader financial activities permissible for financial holding companies. In addition, if the deficiencies persist, the FRB may require the Corporation to divest of Chemical Bank. The Corporation and Chemical Bank were both categorized as "well-capitalized" and "well-managed" as of December 31, 2015.

The BHC Act requires prior approval of the FRB for any direct or indirect acquisition of more than 5% of the voting shares of a commercial bank or its parent holding company by the Corporation. In reviewing applications seeking approval of merger and acquisition transactions, the bank regulatory authorities will consider, among other things, the competitive effect and public benefits of the transactions, the capital position of the combined organization, the Corporation's performance record under the Community Reinvestment Act of 1977 (CRA), the Corporation's adherence to banking regulations and fair lending laws and the effectiveness of the subject organizations in combating money laundering activities.

Interstate Banking and Branching

Bank holding companies may acquire banks located in any state in the United States without regard to geographic restrictions or reciprocity requirements imposed by state law. Banks may establish interstate branch networks through acquisitions of other banks. The establishment of de novo interstate branches or the acquisition of individual branches of a bank in another state (rather than the acquisition of an out-of-state bank in its entirety) is allowed only if specifically authorized by state law.

Michigan permits both U.S. and non-U.S. banks to establish branch offices in Michigan. The Michigan Banking Code permits, in appropriate circumstances and with the approval of the DIFS, (1) acquisition of Michigan banks by FDIC-insured banks, savings banks or savings and loan associations located in other states, (2) sale by a Michigan bank of branches to an FDIC-insured bank, savings bank or savings and loan association located in a state in which a

Michigan bank could purchase branches of the purchasing entity, (3) consolidation of Michigan banks and FDIC-insured banks, savings banks or savings and loan associations located in other states having laws permitting such consolidation, (4) establishment of branches in Michigan by FDIC-insured banks located in other states, the District of Columbia or U.S. territories or protectorates having laws permitting a Michigan bank to establish a branch in such jurisdiction, and (5) establishment by foreign banks of branches located in Michigan. A Michigan bank holding company may acquire a non-Michigan bank and a non-Michigan bank holding company may acquire a Michigan bank.

Dividends

The Corporation's primary source of funds available to pay dividends to shareholders is from dividends paid to it by Chemical Bank. Federal and state banking laws and regulations limit both the extent to which Chemical Bank can lend or otherwise supply funds to the Corporation and also place certain restrictions on the amount of dividends Chemical Bank may pay to the Corporation.

The Corporation and Chemical Bank are subject to regulatory policies and requirements relating to the payment of dividends, including requirements to maintain capital above regulatory minimums, which could prohibit the payment of dividends under circumstances where the payment could be deemed an unsafe and unsound banking practice. Chemical Bank is required to obtain prior approval from the FRB for the declaration and payment of dividends to the Corporation if the total of all dividends declared in any calendar year will exceed the total of (i) Chemical Bank's net income (as defined by regulation) for that year plus (ii) the retained net income (as defined by regulation) for the preceding two years. In addition, federal regulatory authorities have stated that banking organizations should generally pay dividends only out of current operating earnings. Further, the FRB has indicated that bank holding companies should carefully review their dividend policy and has discouraged payment ratios that are at maximum allowable levels unless both asset quality and capital are very strong. Chemical Bank declared and paid dividends to the Corporation of $56.9 million and $64.5 million in 2015 and 2014, respectively. The Corporation intends to utilize a portion of the proceeds from the dividend from Chemical Bank in 2015 to pay off subordinated debentures, which were acquired as part of the Lake Michigan transaction, during the first quarter of 2016. The Corporation utilized proceeds from the increased dividend from Chemical Bank in 2014 to fund a portion of the cash component of the merger consideration in the Lake Michigan transaction. Dividends received from Chemical Bank in the past are not necessarily indicative of amounts that may be paid or available to be paid in the future.

Source of Strength

Under FRB policy, the Corporation is expected to act as a source of financial strength to Chemical Bank and to commit resources to support Chemical Bank. In addition, if DIFS deems Chemical Bank's capital to be impaired, DIFS may require Chemical Bank to restore its capital by a special assessment on the Corporation as Chemical Bank's only shareholder. If the Corporation failed to pay any assessment, the Corporation's directors would be required, under Michigan law, to sell the shares of Chemical Bank's stock owned by the Corporation to the highest bidder at either a public or private auction and use the proceeds of the sale to restore Chemical Bank's capital.

Capital Requirements

The Corporation and Chemical Bank are subject to regulatory "risk-based" capital guidelines. Failure to meet these capital guidelines could subject the Corporation or Chemical Bank to a variety of enforcement remedies, including issuance of a capital directive, the termination of deposit insurance by the FDIC, a prohibition on accepting brokered deposits, and other restrictions on its business. In addition, Chemical Bank would generally not receive regulatory approval of any application that requires the consideration of capital adequacy, such as a branch or merger application, unless it could demonstrate a reasonable plan to meet the capital requirement within a reasonable period of time.

The Federal Deposit Insurance Corporation Improvement Act (FDICIA) requires, among other things, federal banking agencies to take "prompt corrective action" in respect of depository institutions that do not meet minimum capital requirements. FDICIA sets forth the following five capital categories: "well-capitalized," "adequately-capitalized," "undercapitalized," "significantly-undercapitalized" and "critically-undercapitalized." A depository institution's capital category will depend upon how its capital levels compare with various relevant capital measures as established by regulation, which include Tier 1 and total risk-based capital ratio measures and a leverage capital ratio measure. Federal banking regulators are required to take specified mandatory supervisory actions and are authorized to take other discretionary actions with respect to institutions in the three undercapitalized categories. The severity of the action depends upon the capital category in which the institution is placed. Subject to a narrow exception, the banking regulator must generally appoint a receiver or conservator for an institution that is critically undercapitalized. An institution in any of the undercapitalized categories is required to submit an acceptable capital restoration plan to its appropriate federal banking agency. An undercapitalized institution is also generally prohibited from paying any dividends, increasing its average total assets, making acquisitions, establishing any branches, accepting or renewing any brokered deposits or engaging in any new line of business, except under an accepted capital restoration plan or with FDIC approval.

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In July 2013, the FRB and the FDIC approved final rules implementing the Basel Committee on Banking Supervision's (BCBS) capital guidelines for U.S. banks (commonly known as Basel III). Under Basel III, which began for the Corporation and Chemical Bank on January 1, 2015 and are subject to a phase-in period through January 1, 2019, minimum capital requirements were increased for both the quantity and quality of capital held by the Corporation and Chemical Bank. Basel III added a new common equity Tier 1 capital to risk-weighted assets ratio (CET ratio) of 4.5% and a capital conservation buffer of 2.5% of risk-weighted assets, which when fully phased-in, effectively results in a minimum CET ratio of 7.0%. Basel III also raised the minimum ratio of Tier 1 capital to risk-weighted assets from 4.0% to 6.0% (which, with the capital conservation buffer, effectively results in a minimum Tier 1 capital ratio of 8.5% when fully phased-in) and requires a minimum leverage ratio of 4.0%.

A summary of the actual and minimum Basel III regulatory capital ratios for the Corporation and Chemical Bank as of December 31, 2015 follows:

	Leverage Ratio	Common Equity Tier 1 Capital Ratio	Tier 1 Risk-Based Capital Ratio	Total Risk-Based Capital Ratio
Actual Capital Ratios:				
Chemical Financial Corporation	8.6%	10.6%	10.7%	11.8%
Chemical Bank	8.5%	10.6%	10.6%	11.7%
Minimum for capital adequacy purposes	4.0%	4.5%	6.0%	8.0%
Minimum to be well capitalized under prompt corrective action regulations	5.0%	6.5%	8.0%	10.0%
Minimum for capital adequacy, including capital conservation buffer[1]	6.5%	7.0%	8.5%	10.5%

[1] Assumes fully phased in capital conservation buffer of 2.5%. The capital conservation buffer will be phased in beginning January 1, 2016 at 0.625% and increasing by the same amount each year until fully implemented in January 2019. Failure to maintain the required capital conservation buffer may limit the Corporation's and Chemical Bank's ability to dividends or pay discretionary bonuses, among other things.

At December 31, 2015, the capital ratios of the Corporation and Chemical Bank exceeded the regulatory guidelines for institutions to be categorized as "well-capitalized." Under certain circumstances, the appropriate banking agency may treat a well capitalized, adequately capitalized or undercapitalized institution as if the institution were in the next lower capital category. Additional information on the Corporation and Chemical Bank's capital ratios may be found under Note 20 to the consolidated financial statements under Item 8 of this report.

FDIC Insurance

The FDIC formed the Deposit Insurance Fund (DIF) in accordance with the Federal Deposit Insurance Reform Act of 2005 (Reform Act). The FDIC implemented the Reform Act to create a stronger and more stable insurance system. The FDIC maintains the insurance reserves of the DIF by assessing depository institutions an insurance premium. The DIF insures deposit accounts of Chemical Bank up to a maximum amount per separately insured depositor. Under the Dodd-Frank Act, the maximum amount of federal deposit insurance coverage permanently increased from $100,000 to $250,000 per depositor, per institution.

FDIC insured depository institutions are required to pay deposit insurance premiums based on the risk an institution poses to the DIF. As required by the Dodd-Frank Act, in February 2011, the FDIC finalized rules, effective for assessments occurring after April 1, 2011, which redefine an institution's assessment base as average consolidated total assets minus average Tier 1 capital. These rules also established the general assessment rate for Risk Category 1 institutions, such as Chemical Bank, at 5 to 9 basis points (annualized). Assessments for depository institutions with total assets of $10 billion or more are subject to a different methodology that reflects the institution's overall risk relative to other large institutions. The FDIC also may impose special assessments at any time it estimates that Deposit Insurance Fund reserves will fall to a level that would adversely affect public confidence. The Corporation's FDIC DIF insurance premiums were $5.5 million in 2015, compared to $4.3 million in 2014 and $4.4 million in 2013.

Safety and Soundness Standards

As required by FDICIA, the federal banking agencies' prompt corrective action powers impose progressively more restrictive constraints on operations, management and capital distributions, depending on the category in which an institution is classified. These actions can include: requiring an insured depository institution to adopt a capital restoration plan guaranteed by the institution's parent company; placing limits on asset growth and restrictions on activities, including restrictions on transactions with affiliates; restricting the interest rates the institution may pay on deposits; prohibiting the payment of principal or interest on subordinated debt; prohibiting the holding company from making capital distributions without prior regulatory approval; and, ultimately, appointing a receiver for the institution.

The federal banking agencies also have adopted guidelines prescribing safety and soundness standards relating to internal controls and information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, and compensation and benefits. The federal regulatory agencies may take action against a financial institution that does not meet such standards.

Depositor Preference

The Federal Deposit Insurance Act provides that, in the event of the "liquidation or other resolution" of an insured depository institution, the claims of depositors of the institution, including the claims of the FDIC on behalf of insured depositors, and certain claims for administrative expenses of the FDIC as a receiver, will have priority over other general unsecured claims against the institution. If an insured depository institution fails, insured and uninsured depositors, along with the FDIC, will have priority in payment ahead of unsecured, non-deposit creditors, including depositors whose deposits are payable only outside of the United States and the parent bank holding company, with respect to any extensions of credit they have made to such insured depository institution.

Community Reinvestment Act (CRA)

Banks are subject to the provisions of the CRA. Under the terms of the CRA, the appropriate federal bank regulatory agency is required, in connection with its examination of a bank, to assess such bank's record in meeting the credit needs of the community served by that bank, including low and moderate income neighborhoods, consistent with the safe and sound operation of the institution. Under the CRA, institutions are assigned a rating of "outstanding," "satisfactory," "needs to improve," or "substantial non-compliance." The regulatory agency's assessment of the bank's record is made available to the public. Further, a bank's federal regulatory agency is required to assess the CRA compliance record of any bank that has applied to: (1) obtain deposit insurance coverage for a newly chartered institution, (2) establish a new branch office that will accept deposits, (3) relocate an office, or (4) merge or consolidate with, or acquire the assets or assume the liabilities of, a federally regulated financial institution. In the case of a bank holding company applying for approval to acquire a bank or another bank holding company, the FRB will assess the CRA compliance record of each subsidiary bank of the applicant bank holding company, and such compliance records may be the basis for denying the application. Upon receiving notice that a subsidiary bank is rated less than "satisfactory," a financial holding company will be prohibited from additional activities that are permitted to a financial holding company and from acquiring any company engaged in such activities. Chemical Bank's CRA rating was "outstanding" as of December 31, 2015.

Financial Privacy

Federal banking regulations limit the ability of banks and other financial institutions to disclose non-public information about consumers to nonaffiliated third parties. These limitations require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to a nonaffiliated third party. These regulations affect how consumer information is transmitted through diversified financial companies and conveyed to outside vendors.

Anti-Money Laundering and the USA Patriot Act

A major focus of governmental policy on financial institutions has been aimed at combating money laundering and terrorist financing. The USA PATRIOT Act of 2001 (USA Patriot Act) substantially broadened the scope of United States anti-money laundering laws and regulations by imposing significant compliance and due diligence obligations, creating new crimes and penalties and expanding the extra-territorial jurisdiction of the United States. The United States Treasury Department has issued, and in some cases proposed, a number of regulations that apply various requirements of the USA Patriot Act to financial institutions. These regulations impose obligations on financial institutions to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing and to verify the identity of their customers. Certain of those regulations impose specific due diligence requirements on financial institutions that maintain correspondent or private banking relationships with non-U.S. financial institutions or persons. Failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing, or to comply with all of the relevant laws or regulations, could have serious legal and reputational consequences for the institution.

Office of Foreign Assets Control Regulation

The United States Treasury Department Office of Foreign Assets Control (OFAC) has imposed economic sanctions that affect transactions with designated foreign countries, nationals and others. OFAC sanctions targeting countries

take many different forms. Generally, however, they contain one or more of the following elements: (i) restrictions on trade with or investment in a sanctioned country, including prohibitions on "U.S. persons" engaging in financial transactions relating to making investments in, or providing investment-related advice or assistance to, a sanctioned country; and (ii) a blocking of assets in which the government or specially designated nationals of the sanctioned country have an interest, by prohibiting transfers of property subject to U.S. jurisdiction (including property in the possession or control of U.S. persons). Blocked assets (e.g., property and bank deposits) cannot be paid out, withdrawn, set off or transferred in any manner without a license from OFAC. Failure to comply with these sanctions could have serious legal and reputational consequences.

The Dodd-Frank Act

The Dodd-Frank Act, enacted in July 2010, represents a comprehensive overhaul of the financial services industry within the United States, including establishing the federal Consumer Financial Protection Bureau (CFPB) and requiring the CFPB and other federal agencies to implement many new and significant rules and regulations. The CFPB has issued significant new regulations, which became effective in January 2014, that impact consumer mortgage lending and servicing. In addition, the CFPB has issued regulations, which became effective October 1, 2015, that change the disclosure requirements and forms used under the Truth in Lending Act and the Real Estate Settlement Procedures Act. Compliance with these new laws and regulations and other regulations under consideration by the CFPB have and will likely result in additional costs and could change the products and/or services that are currently being offered, which could be significant and could adversely impact the Corporation's results of operations, financial condition or liquidity.

Incentive Compensation

The regulatory agencies have issued comprehensive guidance on incentive compensation policies intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. The guidance, which covers all employees that have the ability to materially affect the risk profile of an organization, either individually or as part of a group, is based upon the key principles that a banking organization's incentive compensation arrangements should (i) provide incentives that do not encourage risk-taking beyond the organization's ability to effectively identify and manage risks, (ii) be compatible with effective internal controls and risk management and (iii) be supported by strong corporate governance, including active and effective oversight by the organization's board of directors.

The FRB reviews, as part of the regular, risk-focused examination process, the incentive compensation arrangements of banking organizations, such as the Corporation, that are not "large, complex banking organizations." The findings will be included in reports of examination. Deficiencies will be incorporated into the organization's supervisory ratings, which can affect the organization's ability to make acquisitions and take other actions. Enforcement actions may be taken against a banking organization if its incentive compensation arrangements, or related risk-management control or governance processes, pose a risk to the organization's safety and soundness and the organization is not taking prompt and effective measures to correct the deficiencies.

Mergers, Acquisitions, Consolidations and Divestitures

The Corporation's current strategy for growth includes strengthening its presence in core markets, expanding into contiguous markets and broadening its product offerings, while taking into account the integration and other risks of growth. The Corporation evaluates strategic acquisition opportunities and conducts due diligence activities in connection with possible transactions. As a result, discussions, and in some cases, negotiations and transactions may take place and future acquisitions involving cash, debt or equity securities may occur, including future acquisitions that may extend beyond contiguous markets. These generally involve payment of a premium over book value and current market price, and therefore, dilution of book value per share will likely occur with any future transaction.

For more information, see the information under the heading "Mergers, Acquisitions and Branch Closings" included in Management's Discussion and Analysis of Financial Condition and Results of Operations, which is here incorporated by reference.

Availability of Information

The Corporation files reports with the Securities and Exchange Commission (SEC). Those reports include the annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and proxy statements. The public may read and copy any materials the Corporation files with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an internet site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC at www.sec.gov. The Corporation's annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and proxy statements, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, including the financial statements and the financial statement schedules, but not including exhibits to those reports, may be obtained without charge upon written request to Ms. Lori A. Gwizdala, Chief Financial Officer of the Corporation, at P.O. Box 569, Midland, Michigan 48640-0569 and are accessible at no

cost on the Corporation's website at www.chemicalbankmi.com in the "Investor Information" section, as soon as reasonably practicable after they are electronically filed with or furnished to the SEC. Copies of exhibits may be requested at the cost of 30 cents per page from the Corporation's corporate offices. In addition, interactive copies of the Corporation's 2015 Annual Report on Form 10-K and the 2016 Proxy Statement are available at www.edocumentview.com/chfc.

Item 1A. Risk Factors.

The Corporation's business model is subject to many risks and uncertainties. Although the Corporation seeks ways to manage these risks, the Corporation ultimately cannot predict the future or control all of the risks to which it is subject. Actual results may differ materially from management's expectations. Some of these significant risks and uncertainties are discussed below. The risks and uncertainties described below are not the only ones that the Corporation faces. Additional risks and uncertainties of which the Corporation is unaware, or that it currently deems immaterial, also may become important factors that adversely affect the Corporation and its business. If any of these risks were to occur, the Corporation's business, financial condition or results of operations could be materially and adversely affected. If this were to happen, the market price of the Corporation's common stock per share could decline significantly.

Investments in the Corporation's common stock involve risk.

The market price of the Corporation's common stock may fluctuate significantly in response to a number of factors, including, among other things:

- Variations in quarterly or annual results of operations
- Changes in dividends paid per share
- Deterioration in asset quality, including declining real estate values
- Changes in interest rates
- Significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by, or involving, the Corporation or its competitors
- Failure to integrate acquisitions or realize anticipated benefits from acquisitions
- Regulatory actions, including changes to regulatory capital levels, the components of regulatory capital and how regulatory capital is calculated
- New regulations that limit or significantly change the Corporation's ability to continue to offer existing banking products
- Volatility of stock market prices and volumes
- Issuance of additional shares of common stock or other debt or equity securities of the Corporation
- Changes in market valuations of similar companies
- Uncertainties, disruptions and fluctuations in the credit and financial markets, either nationally or globally
- Changes in securities analysts' estimates of financial performance or recommendations
- New litigation or contingencies or changes in existing litigation or contingencies
- New technology used, or services offered, by competitors
- Breaches in information security systems of the Corporation and/or its customers and competitors
- Changes in accounting policies or procedures required by standard setting or other regulatory agencies
- New developments in the financial services industry
- News reports relating to trends, concerns and other issues in the financial services industry
- Perceptions in the marketplace regarding the financial services industry, the Corporation and/or its competitors
- Rumors or erroneous information
- Geopolitical conditions such as acts or threats of terrorism or military conflicts

The Corporation is subject to lending risk.

A significant source of risk for the Corporation arises from the possibility that losses will be sustained because borrowers, guarantors and related parties may fail to perform in accordance with the terms of their loan agreements. Most loans originated by the Corporation are secured, but some loans are unsecured depending on the nature of the loan. With respect to secured loans, the collateral securing repayment includes a wide variety of real and personal property that may be insufficient to cover the amounts owed. Collateral values are adversely affected by changes in prevailing economic, environmental and other conditions, including declines in the value of real estate, changes in interest rates, changes in monetary and fiscal policies of the federal government, terrorist activity, environmental contamination and other external events.

The Corporation maintains an allowance for loan losses, which is a reserve established through a provision for loan losses charged to net income that represents management's estimate of probable losses that have been incurred within

the existing portfolio of loans. The level of the allowance for loan losses reflects management's continuing evaluation of specific credit risks, loan loss experience, current loan portfolio quality, the value of real estate, present economic, political and regulatory conditions and unidentified losses inherent in the current loan portfolio. The determination of the appropriate level of the allowance for loan losses inherently involves a high degree of subjectivity and requires the Corporation to make significant estimates of current credit risks and future trends, all of which may undergo material changes. Deterioration in economic conditions and declines in real estate values affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of the Corporation's control, may require an increase in the allowance for loan losses. In addition, bank regulatory agencies periodically review the Corporation's allowance for loan losses and may require an increase in the allowance for loan losses or the recognition of further loan charge-offs, based on judgments different than those of management.

Any significant increase in the allowance for loan losses would likely result in a significant decrease in net income and may have a material adverse effect on the Corporation's financial condition and results of operations. See the sections captioned "Allowance for Loan Losses" in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 4 - Loans in the notes to consolidated financial statements in Item 8. Financial Statements and Supplementary Data, located elsewhere in this report for further discussion related to the Corporation's process for determining the appropriate level of the allowance for loan losses.

Potential acquisitions or mergers may disrupt the Corporation's business and dilute shareholder value.

The Corporation seeks acquisition or merger partners that are culturally similar and have experienced management and possess either significant market presence or have potential for improved profitability through financial management, economies of scale or expanded services. Acquiring or merging other banks, businesses, or branches involves various risks commonly associated with acquisitions or mergers, including, among other things:

- Delay in completing an acquisition or merger due to litigation or the regulatory approval process
- The recording of assets and liabilities of the acquired or merged company at fair value may materially dilute shareholder value at the transaction date and could have a material adverse effect on the Corporation's financial condition and results of operations
- The time and costs associated with identifying and evaluating potential acquisition or merger targets
- Potential exposure to unknown or contingent liabilities of the acquired or merged company
- The estimates and judgments used to evaluate credit, operations, management and market risks with respect to the acquired or merged company may not be accurate
- Exposure to potential asset quality issues of the acquired or merged company
- The time and costs of evaluating new markets, hiring experienced local management and opening new offices, and the time lags between these activities and the generation of sufficient assets and deposits to support the costs of the expansion
- The diversion of the Corporation's management's attention to the negotiation of a transaction, and the integration of the operations and personnel of the combining businesses
- The introduction of new products and services into the Corporation's business
- Potential disruption to the Corporation's business
- The incurrence and possible impairment of goodwill and other intangible assets associated with an acquisition or merger and possible adverse short-term effects on the Corporation's results of operations
- The possible loss of key employees and customers of the acquired or merged company
- Difficulty in estimating the value of the acquired or merged company
- Potential changes in banking or tax laws or regulations that may affect the acquired or merged company
- Difficulty or unanticipated expense associated with converting the operating systems of the acquired or merged company to those of the Corporation

The transactions may be more expensive to complete and the anticipated benefits, including 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, including economic and financial conditions.

The Corporation regularly evaluates merger and acquisition opportunities and conducts due diligence activities related to possible transactions with other financial institutions and financial services companies. As a result, merger or acquisition discussions and, in some cases, negotiations and transactions may take place and future mergers or acquisitions involving cash, debt or equity securities may occur at any time. Acquisitions and mergers typically involve the payment of a premium over book value, and, therefore, dilution of the Corporation's tangible book value and ownership interest may occur in connection with any future transaction. Furthermore, failure to realize the expected revenue increases, cost savings, increases in geographic or product presence, and/or other projected benefits from an acquisition could have a material adverse effect on the Corporation's financial condition and results of operations, including net income per common share.

Risks related to the Corporation's proposed merger with Talmer Bancorp, Inc. (Talmer)

The Corporation and Talmer have operated and, until the completion of the merger, will continue to operate, independently. The success of the merger, including anticipated benefits and cost savings, will depend, in part, on the

Corporation’s and Talmer’s ability to successfully combine and integrate the businesses of the Corporation and Talmer in a manner that permits growth opportunities and does not materially disrupt the existing customer relations or result in decreased revenues due to loss of customers. It is possible that the integration process could result in the loss of key employees, the disruption of either company’s ongoing businesses or inconsistencies in standards, controls, procedures and policies that adversely affect the combined company’s ability to maintain relationships with customers, depositors, clients and employees or to achieve the anticipated benefits and cost savings of the merger. If the combined companies experience difficulties with the integration process, the anticipated benefits of the merger may not be realized fully or at all, or may take longer to realize than expected.

The Corporation has incurred, and will continue to incur, substantial expenses in connection with the negotiation and completion of the transaction contemplated by the merger agreement with Talmer. If the merger is not completed, the Corporation would have to recognize these expenses without realizing the expected benefits of the merger. These circumstances could have an adverse effect on the Corporation's business, results of operations and stock price.
Under the merger agreement, both the Corporation and Talmer have agreed not to, subject to certain exceptions generally related to their respective board of directors exercise of fiduciary duties, as set forth in the merger agreement, solicit or initiate, or knowingly facilitate or knowingly encourage, inquiries or proposals with respect to, engage in any discussions or negotiations concerning, or provide any confidential information relating to, any alternative business combination transactions. In addition, the merger agreement contains certain termination rights for both the Corporation and Talmer. If the merger agreement is terminated under certain circumstances, including certain breaches of the merger agreement, the Corporation or Talmer, as applicable, is required to reimburse the other party for its transaction-related expenses up to $3 million. If the merger agreement is terminated under certain circumstances, including termination of the merger agreement to accept an alternative business combination transaction as permitted by and subject to the terms of the merger agreement, the Corporation or Talmer, as applicable, is required to pay the other party a termination fee of $34 million minus any previously reimbursed transaction-related expenses.
Before the merger may be completed, the Corporation and Talmer must obtain approvals from the Board of Governors of the Federal Reserve System. Other approvals, waivers or consents from regulators may also be required. These regulators may impose conditions on the completion of the merger or require changes to the terms of the merger. Although the Corporation and Talmer do not currently expect that any such conditions or changes would be imposed, there can be no assurance that they will not be, and such conditions or changes could have the effect of delaying or preventing completion of the merger or imposing additional costs on or limiting the revenues of the combined company following the merger, any of which might have an adverse effect on the combined company following the merger.
Before the merger may be completed, the Corporation and Talmer must obtain the requisite approval of their respective shareholders. There is no assurance that these approvals will be obtained.
Litigation filed against Talmer, its board of directors and the Corporation could prevent or delay the completion of the merger or result in the payment of damages following completion of the merger.
In connection with the merger, two purported Talmer stockholders have filed putative class action lawsuits against Talmer, its board of directors and the Corporation. Among other remedies, the plaintiffs seek to enjoin the merger. If this litigation is not resolved, these lawsuits could prevent or delay completion of the merger and result in substantial costs to Talmer and the Corporation, including any costs associated with indemnification. Additional lawsuits may be filed against Talmer, the Corporation or the directors and officers of either company in connection with the merger. The defense or settlement of any lawsuit or claim that remains unresolved at the effective time of the merger may adversely affect the combined company's business, financial condition, results of operations, cash flows and market price.
Additional growth will subject the Corporation to additional regulation, increased supervision and increased costs.
The Dodd-Frank Act imposes additional regulatory requirements on institutions with $10 billion or more in assets. The Corporation had $9.2 billion in assets as of December 31, 2015. Additional growth that results in the Corporation having assets of $10 billion or more would subject the Corporation to the following:

- Supervision, examination and enforcement by the CFPB with respect to consumer financial protection laws;
- Regulatory stress testing requirements, whereby the Corporation would be required to conduct an annual stress test (using assumptions for baseline, adverse and severely adverse scenarios);
- A modified methodology for calculating FDIC insurance assessments and potentially higher assessment rates as a result of institutions with $10 billion or more in assets being required to bear a greater portion of the cost of raising the reserve ratio to 1.35% as required by the Dodd-Frank Act;
- Heightened compliance standards under the Volcker Rule;
- Enhanced supervision as a larger financial institution; and
- Under the Durbin Amendment to the Dodd-Frank Act, institutions with $10 billion or more in assets are subject to a cap on the interchange fees that may be charged in certain electronic debit and prepaid card transactions. The

maximum permissible interchange fee for electronic debit transactions is the sum of 21 cents per transaction and 5 basis points multiplied by the value of the transaction. In addition, an issuer may charge up to 1 cent on each transaction as a fraud prevention adjustment if the issuer meets certain fraud prevention standards.

The imposition of these regulatory requirements and increased supervision may require additional commitment of financial resources to regulatory compliance and may increase the Corporation's cost of operations. Further, the results of the stress testing process may lead the Corporation to retain additional capital or alter the mix of its capital components.

If the pending merger with Talmer Bancorp, Inc. is completed, then the Corporation will have more than $10 billion in assets and, as a result, will be subject to the additional regulatory requirements, increased supervision and increased costs.

The Corporation may face increased pressure from purchasers of its residential mortgage loans to repurchase those loans or reimburse purchasers for losses related to those loans.

The Corporation sells fixed rate long-term residential mortgage loans it originates in the secondary market. Purchasers of residential mortgage loans, such as government sponsored entities, are increasing their efforts to seek to require sellers of residential mortgage loans to either repurchase loans previously sold or reimburse purchasers for losses related to loans previously sold when losses are incurred on a loan previously sold due to actual or alleged failure to strictly conform to the purchaser's purchase criteria. As a result, the Corporation may face increased pressure from purchasers of its residential mortgage loans to repurchase those loans or reimburse purchasers for losses related to those loans and it may face increasing expenses to defend against such claims. If the Corporation is required in the future to repurchase loans previously sold, reimburse purchasers for losses related to loans previously sold, or if it incurs increasing expenses to defend against such claims, the Corporation's financial condition and results of operations would be negatively affected.

The Corporation holds general obligation municipal bonds in its investment securities portfolio. If one or more issuers of these bonds were to become insolvent and default on its obligations under the bonds, it could have a negative effect on the financial condition and results of operations of the Corporation.

Municipal bonds held by the Corporation totaled $525 million at December 31, 2015, and were issued by many different municipalities with no significant concentration in any single municipality. There can be no assurance that the financial conditions of these municipalities will not be materially and adversely affected by future economic conditions. If one or more of the issuers of these bonds were to become insolvent and default on their obligations under the bonds, it could have a negative effect on the financial condition and results of operations of the Corporation.

General economic conditions, and in particular conditions in the State of Michigan, affect the Corporation's business.

The Corporation is affected by general economic conditions in the United States, although most directly within Michigan. The Corporation's success depends primarily on the general economic conditions in the State of Michigan and the specific local markets in which the Corporation operates. The economic conditions in these local markets have a significant impact on the demand for the Corporation's products and services as well as the ability of the Corporation's customers to repay loans, the value of the collateral securing loans and the stability of the Corporation's deposit funding sources. Substantially all of the Corporation's loans are to individuals and businesses in Michigan. Consequently, any prolonged decline in Michigan's economy could have a materially adverse effect on the Corporation's financial condition and results of operations. A significant decline or a prolonged period of the lack of improvement in general economic conditions could impact these local economic conditions and, in turn, have a material adverse effect on the Corporation's financial condition and results of operations.

If the Corporation does not adjust to changes in the financial services industry, its financial performance may suffer.

The Corporation's ability to maintain its financial performance and return on investment to shareholders will depend largely on its ability to continue to grow its loan portfolio and also, in part, on its ability to maintain and grow its core deposit customer base and expand its financial services to its existing and/or new customers. In addition to other banks, competitors include savings and loan associations, credit unions, securities dealers, brokers, mortgage bankers, investment advisors and finance and insurance companies. The increasingly competitive environment is, in part, a result of changes in the economic environment within the State of Michigan, regulation, and changes in technology and product delivery systems. New competitors may emerge to increase the degree of competition for the Corporation's customers and services. Financial services and products are also constantly changing. The Corporation's financial performance will also depend, in part, upon customer demand for its products and services and its ability to develop and offer competitive financial products and services.

Consumers may decide not to use banks to complete their financial transactions.

Technology and other changes are allowing customers to complete financial transactions without the involvement of banks. For example, consumers can now pay bills and transfer funds directly without banks. The process of eliminating banks as intermediaries in financial transactions, known as disintermediation, could result in the loss of fee income, the loss of customer deposits and income generated from those deposits and lending opportunities.

Changes in interest rates could reduce the Corporation's net income and cash flow.

The Corporation's net income and cash flow depends, to a great extent, on the difference between the interest earned on loans and securities and the interest paid on deposits and other borrowings. Market interest rates are beyond the

Corporation's control, and they fluctuate in response to general economic conditions, the policies of various governmental and regulatory agencies and competition. Changes in monetary policy, including changes in interest rates and interest rate relationships, will influence the origination of loans, the purchase of investments, the generation of deposits, the interest received on loans and securities and the interest paid on deposits and other borrowings. Any significant adverse effects of changes in interest rates on the Corporation's results of operations, or any substantial, unexpected, prolonged change in market interest rates could have a material adverse effect on the Corporation's financial condition and results of operations. See the sections captioned "Net Interest Income" in Item 7.

Management's Discussion and Analysis of Financial Condition and Results of Operations and "Market Risk" in Item 7A. Quantitative and Qualitative Disclosures About Market Risk, located elsewhere in this report, for further discussion related to the Corporation's management of interest rate risk.

The Corporation may be required to pay additional deposit insurance premiums to the FDIC, which could negatively impact earnings.

Depending upon the magnitude of future losses that the FDIC deposit insurance fund suffers, there can be no assurance that there will not be additional premium increases or assessments in order to replenish the fund. The FDIC may need to set a higher base rate schedule based on future financial institution failures and updated failure and loss projections. Potentially higher FDIC assessment rates than those currently projected or special assessments could have an adverse impact on the Corporation's financial condition and results of operations.

The Corporation is subject to liquidity risk in its operations, which could adversely affect its ability to fund various obligations.

Liquidity risk is the possibility of being unable to meet obligations as they come due or capitalize on growth opportunities as they arise because of an inability to liquidate assets or obtain adequate funding on a timely basis, at a reasonable cost and within acceptable risk tolerances. Liquidity is required to fund various obligations, including credit obligations to borrowers, loan originations, withdrawals by depositors, repayment of debt, dividends to shareholders, operating expenses and capital expenditures. Liquidity is derived primarily from retail deposit growth and earnings retention, principal and interest payments on loans and investment securities, net cash provided from operations and access to other funding. If the Corporation is unable to maintain adequate liquidity, then its business, financial condition and results of operations would be negatively effected.

Evaluation of investment securities for other-than-temporary impairment involves subjective determinations and could materially impact the Corporation's financial condition and results of operations.

The evaluation of impairments is a quantitative and qualitative process, which is subject to risks and uncertainties and is intended to determine whether declines in the fair value of investments should be recognized in current period earnings. The risks and uncertainties include changes in general economic conditions, the issuer's net income, projected net income and financial condition or future recovery prospects, the effects of changes in interest rates or credit spreads and the expected recovery period. Estimating future cash flows involves incorporating information received from third-party sources and making internal assumptions and judgments regarding the future performance of the underlying collateral and/or value of the underlying asset and also assessing the probability that an adverse change in future cash flows has occurred. The determination of the amount of other-than-temporary impairments is based upon the Corporation's quarterly evaluation and assessment of known and inherent risks associated with the respective asset class. Such evaluations and assessments are revised as conditions change and new information becomes available.

Additionally, the Corporation's management considers a wide range of factors about the security issuer and uses judgment in evaluating the cause of the decline in the estimated fair value of the security and in assessing the prospects for recovery. Inherent in management's evaluation of the security are assumptions and estimates about the operations of the issuer and its future earnings potential. Considerations in the impairment evaluation process include, but are not limited to: (i) the length of time and the extent to which the market value has been less than cost or amortized cost; (ii) the potential for impairments of securities when the issuer is experiencing significant financial difficulties; (iii) the potential for impairments in an entire industry sector or sub-sector; (iv) the potential for impairments in certain economically depressed geographic locations; (v) the potential for impairments of securities where the issuer, series of issuers or industry has suffered a catastrophic type of loss or has exhausted natural resources; (vi) the Corporation's intent and ability to retain the investment for a period of time sufficient to allow for the recovery of its value; (vii) unfavorable changes in forecasted cash flows on residential mortgage-backed and asset-backed securities; and (viii) other subjective factors, including concentrations and information obtained from regulators and rating agencies. Impairments to the carrying value of the Corporation's investment securities may need to be taken in the future, which could have a material adverse effect on the Corporation's financial condition and results of operations.

The Corporation may be required to recognize an impairment of its goodwill or core deposit intangible assets, or to establish a valuation allowance against its deferred income tax assets, which could have a material adverse effect on

the Corporation's financial condition and results of operations.

Goodwill represents the excess of the amounts paid to acquire subsidiaries over the fair value of their net assets at the date of acquisition. The Corporation tests goodwill at least annually for impairment. Substantially all of the Corporation's goodwill at December 31, 2015 was recorded on the books of Chemical Bank. The fair value of Chemical Bank is impacted by the performance of its business and other factors. Core deposit intangible (CDI) assets represent the estimated value of stable customer deposits, excluding time deposits, acquired in business combinations, that provide a source of funds that are below market interest rates. The Corporation amortizes its CDI assets over the estimated period the corresponding customer deposits are expect to exist. The Corporation tests its CDI assets periodically for impairment. If the Corporation experiences higher than expected deposit run-off, its CDI assets could be impaired. If it is determined that the the Corporation's goodwill or CDI assets have been impaired, the Corporation must recognize a write-down by the amount of the impairment, with a corresponding charge to net income. Such

write-downs could have a material adverse effect on the Corporation's financial condition and results of operations. At December 31, 2015, the Corporation had $287 million of goodwill, representing 28% of shareholders' equity. The Corporation had $27 million of CDI assets at December 31, 2015.

Deferred income tax represents the tax effect of the differences between the book and tax basis of assets and liabilities. Deferred tax assets are assessed periodically by management to determine if they are realizable. Factors in management's determination include the performance of the Corporation, including the ability to generate taxable net income. If, based on available information, it is more-likely-than-not that the deferred income tax asset will not be realized, then a valuation allowance must be established with a corresponding charge to net income. As of December 31, 2015, the Corporation did not carry a valuation allowance against its deferred tax assets. Future facts and circumstances may require a valuation allowance. Charges to establish a valuation allowance with respect to the Corporation's deferred tax assets could have a material adverse effect on the its financial condition and results of operations.

If the Corporation is required to recognize a valuation allowance with respect to its mortgage servicing rights asset, it could have a material adverse effect on the Corporation's financial condition and results of operations.

At December 31, 2015, the Corporation's mortgage servicing rights (MSR) asset had a book value of $11.1 million and a fair value of approximately $15.5 million. The Corporation amortizes its MSR asset in proportion to and over the period of corresponding net servicing income. The Corporation was not required to recognize a valuation allowance at December 31, 2015 with respect to its MSR asset. If the Corporation is required to recognize a valuation allowance with respect to its MSR asset in the future, the Corporation's financial condition and results of operations could be negatively affected.

The Corporation may be a defendant in a variety of litigation and other actions, which may have a material adverse effect on the Corporation's financial condition and results of operations.

The Corporation and Chemical Bank are regularly involved in a variety of litigation arising out of the normal course of business. The Corporation's insurance may not cover all claims that may be asserted against it, and any claims asserted against it, regardless of merit or eventual outcome, may harm its reputation or cause the Corporation to incur unexpected expenses, which could be material in amount. Should the ultimate expenses, judgments or settlements in any litigation exceed the Corporation's insurance coverage, they could have a material adverse effect on the Corporation's financial condition and results of operations. In addition, the Corporation may not be able to obtain appropriate types or levels of insurance in the future, nor may it be able to obtain adequate replacement policies with acceptable terms, if at all.

Environmental liability associated with commercial lending could result in losses.

In the course of its business, the Corporation may acquire, through foreclosure, properties securing loans it has originated or purchased that are in default. Particularly in commercial real estate lending, there is a risk that hazardous substances could be discovered on these properties. In this event, the Corporation might be required to remove these substances from the affected properties at the Corporation's sole cost and expense. The cost of this removal could substantially exceed the value of affected properties. The Corporation may not have adequate remedies against the prior owner or other responsible parties and could find it difficult or impossible to sell the affected properties. These events could have an adverse effect on the Corporation's business, results of operations and financial condition.

The Corporation depends upon the accuracy and completeness of information about customers.

In deciding whether to extend credit to customers, the Corporation relies on information provided to it by its customers, including financial statements and other financial information. The Corporation may also rely on representations of customers as to the accuracy and completeness of that information and on reports of independent auditors on financial statements. The Corporation's financial condition and results of operations could be negatively impacted to the extent that the Corporation extends credit in reliance on financial statements that do not comply with generally accepted accounting principles or that are misleading or other information provided by customers that is false or misleading.

The Corporation operates in a highly competitive industry and market area.

The Corporation faces substantial competition in all areas of its operations from a variety of different competitors, many of which are larger and may have more financial resources. Such competitors primarily include national and regional banks within the various markets where the Corporation operates, as well as internet banks. The Corporation

also faces competition from many other types of financial institutions, including savings and loan associations, credit unions, finance companies, brokerage firms, insurance companies and other financial intermediaries. The financial services industry could become even more competitive as a result of legislative, regulatory and technological changes and continued consolidation. Banks, securities firms and insurance companies can merge under the umbrella of a financial holding company, which can offer virtually any type of financial service, including banking, securities underwriting, insurance (both agency and underwriting) and merchant banking. The Corporation competes with these institutions both in attracting deposits and in making new loans. Technology has lowered barriers to entry into the market and made it possible for non-banks to offer products and services traditionally provided by banks, such as automatic

transfer and automatic payment systems. Many of the Corporation's competitors have fewer regulatory constraints and may have lower cost structures, such as credit unions that are not subject to federal income tax. Due to their size, many competitors may be able to achieve economies of scale and, as a result, may offer a broader range of products and services as well as better pricing for those products and services than the Corporation can.

The Corporation's ability to compete successfully depends on a number of factors, including, among other things:

- The ability to develop, maintain and build long-term customer relationships based on quality service, high ethical standards and safe, sound assets
- The ability to expand the Corporation's market position
- The ability to keep up-to-date with technological advancements in both delivering new products and maintaining existing products, while continuing to invest in cybersecurity and control operating costs
- The scope, relevance and pricing of products and services offered to meet customer needs and demands
- The rate at which the Corporation introduces new products and services relative to its competitors
- Customer satisfaction with the Corporation's level of service
- Industry and general economic trends

Failure to perform in any of these areas could significantly weaken the Corporation's competitive position, which could adversely affect the Corporation's growth and profitability and have a material adverse effect on the Corporation's financial condition and results of operations.

If the Corporation loses members of its senior management team upon whom it is dependent, it may be less effective in managing its operations and may have more difficulty achieving its strategic objectives.

The Corporation believes its success depends on the continued service of its key executives. Although the Corporation currently intends to retain its existing management, it cannot provide assurances that these individuals will remain with the Corporation. The unexpected loss of the services of one or more of the Corporation's key executives or its inability to find suitable replacements within a reasonable period of time following any such loss, could have a material adverse effect on the Corporation's ability to execute its business strategy and, therefore, have a material adverse effect on its financial condition and results of operations.

Legislative or regulatory changes or actions, or significant litigation, could adversely impact the Corporation or the businesses in which it is engaged.

The financial services industry is extensively regulated. The Corporation and Chemical Bank are subject to extensive state and federal regulation, supervision and legislation that govern almost all aspects of their operations. Laws and regulations may change from time to time and are primarily intended for the protection of consumers, depositors and the deposit insurance fund, and not to benefit the Corporation's shareholders. The impact of any changes to laws and regulations or other actions by regulatory agencies may negatively impact the Corporation or its ability to increase the value of its business. Regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities, including the imposition of restrictions on the operation of an institution, the classification of assets by the institution and the adequacy of an institution's allowance for loan losses. Future regulatory changes or accounting pronouncements may increase the Corporation's regulatory capital requirements or adversely affect its regulatory capital levels. Additionally, actions by regulatory agencies or significant litigation against the Corporation or Chemical Bank could require the Corporation to devote significant time and resources to defending its business and may lead to penalties that materially affect the Corporation and its shareholders.

If the Corporation cannot raise additional capital when needed, its ability to further expand its operations through organic growth and acquisitions could be materially impaired.

The Corporation is required by federal and state regulatory authorities to maintain specified levels of capital to support its operations. The Corporation may need to raise additional capital to support its continued growth or in response to regulatory requirements. The Corporation's ability to raise additional capital will depend on conditions in the capital markets at that time, which are outside the Corporation's control, and on its financial performance. The Corporation cannot assure that it will be able to raise additional capital in the future on terms acceptable to the Corporation. If the Corporation cannot raise additional capital when needed, its ability to further expand its operations through organic growth and acquisitions could be materially limited.

The soundness of other financial institutions could adversely affect the Corporation.

The Corporation's ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. The Corporation has exposure to many different industries and counterparties, and it routinely executes transactions with counterparties in the financial services industry. As a result, defaults by, or even rumors or questions about, one or more financial services institutions, or the financial services industry generally, could lead to losses or defaults by the Corporation or by other institutions. Many of these transactions expose the Corporation to credit risk in the event of default of the Corporation's counterparty or client. In addition, the Corporation's credit risk may be exacerbated when the collateral that it holds cannot be

realized or is liquidated at prices insufficient to recover the full amount of the loan. The Corporation can give no assurance that any such losses would not materially and adversely affect its business, financial condition or results of operations.

The Corporation's controls and procedures may fail or be circumvented.

Management regularly reviews and updates the Corporation's internal controls and corporate governance policies and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. A significant failure or circumvention of the Corporation's controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on the Corporation's business, results of operations and financial condition.

Unauthorized disclosure of sensitive or confidential client or customer information, whether through a breach of computer systems or otherwise, could severely harm the Corporation's business.

As part of its business, the Corporation collects, processes and retains sensitive and confidential client and customer information on behalf of itself and other third parties. Despite the security measures the Corporation has in place for its facilities and systems, and the security measures of its third party service providers, the Corporation may be vulnerable to security breaches, acts of vandalism, computer viruses, misplaced or lost data, programming and/or human errors or other similar events. Any security breach involving the misappropriation, loss or other unauthorized disclosure of confidential customer information, whether by the Corporation or by its vendors, could severely damage the Corporation's reputation, expose it to the risks of litigation and liability, disrupt the Corporation's operations and have a material adverse effect on the Corporation's business.

The Corporation's information systems may experience an interruption or breach in security.

The Corporation relies heavily on communications and information systems to conduct its business and deliver its products. Any failure, interruption or breach in security of these systems could result in failures or disruptions in the Corporation's customer relationship management, general ledger, deposit, loan and other systems. While the Corporation has policies and procedures designed to prevent or limit the effect of the failure, interruption or security breach of its information systems, there can be no assurance that any such failures, interruptions or security breaches of the Corporation's information systems or its customers' information or computer systems would not damage the Corporation's reputation, result in a loss of customer business, subject the Corporation to additional regulatory scrutiny, or expose the Corporation to civil litigation and financial liability, any of which could have a material adverse effect on the Corporation's financial condition and results of operations.

Severe weather, natural disasters, acts of war or terrorism and other external events could significantly impact the Corporation's business.

Severe weather, natural disasters, acts of war or terrorism and other adverse external events could have a significant impact on the Corporation's ability to conduct business. Such events could affect the stability of the Corporation's deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in loss of revenue and/or cause the Corporation to incur additional expenses. Although management has established disaster recovery policies and procedures, the occurrence of any such event in the future could have a material adverse effect on the Corporation's business, financial condition and results of operations.

The Corporation may issue debt and equity securities that are senior to the Corporation's common stock as to distributions and in liquidation, which could negatively affect the value of the Corporation's common stock.

In the future, the Corporation may increase its capital resources by entering into debt or debt-like financing or issuing debt or equity securities, which could include issuances of senior notes, subordinated notes, preferred stock or common stock. In the event of the Corporation's liquidation, its lenders and holders of its debt securities and preferred stock would receive a distribution of the Corporation's available assets before distributions to the holders of the Corporation's common stock. The Corporation's decision to incur debt and issue securities in future offerings may depend on market conditions and other factors beyond its control. The Corporation cannot predict or estimate the amount, timing or nature of its future offerings and debt financings. Future offerings could reduce the value of shares of the Corporation's common stock and dilute a shareholder's interest in the Corporation.

The Corporation relies on dividends from Chemical Bank for most of its revenue.

The Corporation is a separate and distinct legal entity from Chemical Bank. It receives substantially all of its revenue from dividends from Chemical Bank. These dividends are the principal source of funds to pay cash dividends on the Corporation's common stock. Various federal and/or state laws and regulations limit the amount of dividends that Chemical Bank may pay to the Corporation. In the event Chemical Bank is unable to pay dividends to the Corporation, the Corporation may not be able to pay cash dividends on its common stock. The earnings of Chemical Bank have been the principal source of funds to pay cash dividends to shareholders. Over the long-term, cash dividends to shareholders are dependent upon earnings, as well as capital requirements, regulatory restraints and other factors affecting Chemical Bank. See the section captioned "Supervision and Regulation" in Item 1. Business and Note 20 - Regulatory Capital and Reserve Requirements in the notes to consolidated financial statements included in Item 8. Financial Statements and Supplementary Data, which are located elsewhere in this report.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

The executive offices of the Corporation and Chemical Bank are located at 235 E. Main Street in downtown Midland, Michigan, in an office building that is owned by the Corporation. The main branch office of Chemical Bank is located at 333 E. Main Street in downtown Midland, Michigan, in an office building that is owned by Chemical Bank.

The Corporation conducted business through 185 banking offices and three loan production offices as of December 31, 2015. These offices are located in various communities throughout Michigan. The majority of the Corporation's offices are owned and leased locations are considered insignificant.

The Corporation considers its properties to be suitable and adequate for operating its banking business.

Item 3. Legal Proceedings.

As of December 31, 2015, the Corporation was not a party to any material pending legal proceeding. As of December 31, 2015, Chemical Bank was a party, as plaintiff or defendant, to a number of legal proceedings all of which were considered ordinary routine litigation incidental to its business or immaterial.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II.

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

The Corporation's common stock is traded on The NASDAQ Stock Market® under the symbol CHFC. As of December 31, 2015, there were approximately 38.2 million shares of the Corporation's common stock issued and outstanding, held by approximately 5,100 shareholders of record. The table below sets forth the range of high and low sales prices for transactions reported on The NASDAQ Stock Market® for the Corporation's common stock for the periods indicated.

	2015		2014	
	High	Low	High	Low
First quarter	$31.56	$28.16	$33.26	$27.86
Second quarter	34.27	29.73	33.28	27.41
Third quarter	34.49	30.09	29.00	26.77
Fourth quarter	37.26	30.98	30.95	26.10

The earnings of Chemical Bank are the principal source of funds for the Corporation to pay cash dividends to its shareholders. Accordingly, cash dividends are dependent upon the earnings, capital needs, regulatory constraints, and other factors affecting Chemical Bank. See Note 20 to the consolidated financial statements in Item 8 of this report for a discussion of such limitations. The Corporation has paid regular cash dividends every quarter since it began operation as a bank holding company in 1973. Based on the financial condition of the Corporation at December 31, 2015, management expects the Corporation to pay quarterly cash dividends on its common shares in 2016. However, there can be no assurance as to future dividends because they are dependent on the Corporation's future earnings, capital requirements and financial condition, and may require regulatory approval. On January 20, 2016, the Corporation announced that the board of directors declared a first quarter 2016 cash dividend of $0.26 per share, payable on March 18, 2016.

The following table summarizes the quarterly cash dividends paid to shareholders over the past five years.

	Years Ended December 31,				
	2015	2014	2013	2012	2011
First quarter	$0.24	$0.23	$0.21	$0.20	$0.20
Second quarter	0.24	0.23	0.21	0.20	0.20
Third quarter	0.26	0.24	0.22	0.21	0.20
Fourth quarter	0.26	0.24	0.23	0.21	0.20
Total	$1.00	$0.94	$0.87	$0.82	$0.80

Shareholder Return

The following line graph compares Chemical Financial Corporation's cumulative total shareholder return on its common stock over the last five years, assuming the reinvestment of dividends, to the Standard and Poor's (S&P) 500 Stock Index and the KBW Nasdaq Regional Banking Index (Ticker: KRX). Both of these indices are based upon total return (including reinvestment of dividends) and are market-capitalization-weighted indices. The S&P 500 Stock Index is a broad equity market index published by S&P. The KBW Nasdaq Regional Banking Index is published by Keefe, Bruyette & Woods, Inc. (KBW), an investment banking firm that specializes in the banking industry. The KBW Nasdaq Regional Banking Index is composed of 50 small and mid-cap U.S. regional banks or thrifts that are publicly traded. The line graph assumes $100 was invested on December 31, 2010.

The dollar values for total shareholder return plotted in the above graph are shown below:

	December 31,					
	2010	2011	2012	2013	2014	2015
Chemical Financial Corporation	$100.00	$100.36	$116.13	$159.86	$159.74	$184.34
KBW Nasdaq Regional Banking Index	100.00	94.86	107.58	157.93	161.80	171.51
S&P 500 Stock Index	100.00	102.11	118.45	156.82	178.28	180.75

Equity Compensation Plans

Information about the Corporation's equity compensation plans as of December 31, 2015 is set forth in Part III, Item 12 of this report, and is here incorporated by reference.

Purchases of Equity Securities

The following schedule summarizes the Corporation's total monthly share repurchase activity for the fourth quarter of 2015:

	Issuer Purchases of Equity Securities			
Period	Total Number of Shares Purchased [(1)]	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under Plans or Programs
October 1, 2015 to October 31, 2015	10,871	$34.37	—	500,000
November 1, 2015 to November 30, 2015	16,896	36.25	—	500,000
December 1, 2015 to December 31, 2015	13,744	34.83	—	500,000
Total	41,511	$35.29	—	

(1) Represents shares delivered or attested in satisfaction of the exercise price and/or tax withholding obligations by employees who received shares of the Corporation's common stock in 2015 under the Corporation's share-based compensation plans, as these plans permit employees to use the Corporation's stock to satisfy such obligations based on the market value of the Corporation's stock on the date of vesting or date of exercise, as applicable.

Item 6. Selected Financial Data*.

	Years Ended December 31,				
	2015	2014	2013	2012	2011
	(In thousands, except per share data)				
Earnings Summary					
Net interest income	$274,008	$212,551	$196,647	$187,545	$183,853
Provision for loan losses	6,500	6,100	11,000	18,500	26,000
Noninterest income	80,216	63,095	60,409	54,684	46,890
Operating expenses	223,894	179,925	164,948	151,921	144,493
Net income	86,830	62,121	56,808	51,008	43,050
Per Common Share Data					
Net income — basic	$2.41	$1.98	$2.02	$1.86	$1.57
Net income — diluted	2.39	1.97	2.00	1.85	1.57
Cash dividends declared and paid	1.00	0.94	0.87	0.82	0.80
Book value at end of period	26.62	24.32	23.38	21.69	20.82
Tangible book value at end of period	18.78	18.57	19.17	17.03	16.54
Market value at end of period	34.27	30.64	31.67	23.76	21.32
Common shares outstanding at year end	38,168	32,774	29,790	27,499	27,457

	Years Ended December 31,				
	2015	2014	2013	2012	2011
	(In thousands, except per share data)				
Balance Sheet Data (Year End)					
Total assets	$9,188,797	$7,322,143	$6,184,708	$5,917,252	$5,339,453
Total loans	7,271,147	5,688,230	4,647,621	4,167,735	3,831,285
Total deposits	7,456,767	6,078,971	5,122,385	4,921,443	4,366,857
Short-term borrowings	397,199	389,467	327,428	310,463	303,786
Other borrowings	242,391	—	—	34,289	43,057
Total shareholders' equity	1,015,974	797,133	696,500	596,341	571,729
Balance Sheet Averages					
Total assets	$8,481,228	$6,473,144	$5,964,592	$5,442,079	$5,304,098
Total earning assets	7,851,134	6,095,064	5,628,969	5,116,127	4,971,704
Total loans	6,583,846	4,976,563	4,355,152	3,948,407	3,730,795
Total interest-bearing liabilities	5,704,205	4,349,977	4,181,921	3,868,108	3,874,811
Total deposits	6,958,667	5,339,422	4,964,082	4,464,062	4,349,873
Short-term borrowings	420,529	334,785	337,649	312,729	287,176
Other borrowings	117,000	1,695	1,935	39,301	64,257
Total shareholders' equity	919,328	754,211	626,555	587,451	569,521
Performance Ratios					
Net interest margin	3.58 %	3.59 %	3.59 %	3.76 %	3.80 %
Return on average assets	1.02	0.96	0.95	0.94	0.81
Return on average shareholders' equity	9.4	8.2	9.1	8.7	7.6
Efficiency ratio	59.8	61.6	63.1	60.8	61.3
Dividend payout ratio	41.8	47.7	43.5	44.3	51.0
Consolidated Capital Ratios					
Average shareholders' equity as a percentage of average assets	10.8 %	11.7 %	10.5 %	10.8 %	10.7 %
Year end ratios:					
Tangible equity to tangible assets ratio	8.1	8.4	9.4	8.1	8.7
Leverage ratio	8.6	9.3	9.9	9.2	9.0
Tier 1 risk-based capital ratio	10.7	11.1	12.7	12.0	12.1
Total risk-based capital ratio	11.8	12.4	14.0	13.2	13.3
Asset Quality					
Net loan charge-offs	$8,855	$9,489	$16,419	$22,342	$27,197
Net loan charge-offs as a percentage of average loans	0.13 %	0.19 %	0.38 %	0.57 %	0.73 %
Year end balances:					
Allowance for loan losses — originated loans	$73,328	$75,183	$78,572	$83,991	$86,733
Allowance for loan losses — acquired loans	—	500	500	500	1,600
Total nonperforming loans	83,880	71,184	81,984	90,854	106,269
Total nonperforming assets	93,815	85,389	91,760	109,323	131,753
Year end ratios:					
Allowance for loan losses as a percentage of total originated loans	1.26 %	1.51 %	1.81 %	2.22 %	2.60 %
Allowance for loan losses as a percentage of nonperforming loans	87	106	96	92	82
	1.15	1.25	1.76	2.18	2.77

Nonperforming loans as a percentage of total loans					
Nonperforming assets as a percentage of total assets	1.02	1.17	1.48	1.85	2.47

* Includes the impact of the acquisitions of Lake Michigan Financial Corporation on May 31, 2015, Monarch Community Bancorp, Inc. on April 1, 2015 and Northwestern Bancorp, Inc. on October 31, 2014 and the acquisition of 21 branch offices from Independent Bank on December 7, 2012. See Note 2 to the consolidated financial statements in Item 8 of this report for information on these acquisitions.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

BUSINESS OF THE CORPORATION

Chemical Financial Corporation (Corporation) is a financial holding company headquartered in Midland, Michigan with its business concentrated in a single industry segment - commercial banking. The Corporation, through its wholly-owned subsidiary bank, Chemical Bank, offers a full range of traditional banking and fiduciary products and services. These products and services include business and personal checking accounts, savings and individual retirement accounts, time deposit instruments, electronically accessed banking products, residential and commercial real estate financing, commercial lending, consumer financing, debit cards, safe deposit box services, money transfer services, automated teller machines, access to insurance and investment products, corporate and personal wealth management services and other banking services.

The principal markets for the Corporation's products and services are communities in Michigan where the branches of Chemical Bank are located and the areas immediately surrounding those communities. As of December 31, 2015, Chemical Bank served these markets through 185 banking offices located in 47 counties across Michigan's lower peninsula. In addition to its banking offices, Chemical Bank operated three loan production offices and over 200 automated teller machines, both on- and off-bank premises. Chemical Bank operates through an internal organizational structure of four regional banking units. Chemical Bank's regional banking units are collections of branch banking offices organized by geographical regions within the State of Michigan.

The principal source of revenue for the Corporation is interest and fees on loans, which accounted for 73% of total revenue in 2015, 72% of total revenue in 2014 and 71% of total revenue in 2013. Interest on investment securities, service charges and fees on deposit accounts and wealth management revenue are also significant sources of revenue, which combined, accounted for 17% of total revenue in 2015 and 19% of total revenue in both 2014 and 2013. Revenue is influenced by overall economic factors including market interest rates, business and consumer spending, consumer confidence and competitive conditions in the marketplace.

MERGERS, ACQUISITIONS AND BRANCH CLOSINGS

Pending Merger with Talmer Bancorp, Inc.

On January 25, 2016, the Corporation entered into an Agreement and Plan of Merger with Talmer Bancorp, Inc. (Talmer). Under the terms of the merger agreement, each Talmer shareholder will receive $1.61 in cash and 0.4725 shares of the Corporation's common stock for each share of Talmer common stock, subject to adjustment in limited circumstances. Based on the 30-day volume weighted price per share of the Corporation's common stock as of January 25, 2016, the merger had a transaction value of approximately $1.1 billion. Following the completion of the merger, the Corporation intends to consolidate Talmer's wholly-owned subsidiary bank, Talmer Bank and Trust, with and into Chemical Bank. At December 31, 2015, Talmer had total assets of $6.6 billion, total loans of $4.8 billion and total deposits of $5.0 billion, including brokered deposits of $229 million. Talmer Bank and Trust is a full service community bank offering a full suite of commercial banking, retail banking, mortgage banking, wealth management and trust services to small and medium-sized businesses and individuals through 81 full service banking offices located primarily within southeast Michigan and northeast Ohio, as well as west Michigan, northeast Michigan, Chicago, Illinois, northern Indiana, and Las Vegas, Nevada. Completion of the merger is subject to regulatory approval and the approval of the Corporation's and Talmer's shareholders, in addition to satisfaction of other customary closing conditions.

Acquisition of Lake Michigan Financial Corporation

On May 31, 2015, the Corporation acquired all of the outstanding stock of Lake Michigan Financial Corporation (Lake Michigan) for total consideration of $187.4 million, which included stock consideration of $132.9 million and cash consideration of $54.5 million. As a result of the acquisition, the Corporation issued approximately 4.3 million shares of its common stock, based on an exchange ratio of 1.326 shares of its common stock, and paid $16.64 in cash, for each share of Lake Michigan common stock outstanding. Lake Michigan, a bank holding company, owned The Bank of Holland and The Bank of Northern Michigan, which combined operated five banking offices in Holland, Grand Haven, Grand Rapids, Petoskey and Traverse City, Michigan. The Bank of Holland and The Bank of Northern Michigan were consolidated with and into Chemical Bank on November 13, 2015. The acquisition of Lake Michigan resulted in increases in the Corporation's total assets of $1.24 billion, including total loans of $986 million, and total deposits of $925 million, as of the acquisition date. In connection with the acquisition of Lake Michigan, the

Corporation recorded $102 million of goodwill, which was primarily attributable to the synergies and economies of scale expected from combining the operations of the Corporation and Lake Michigan. In addition, the Corporation recorded $8.6 million of core deposit and other intangible assets in conjunction with the acquisition.
Acquisition expenses associated with the acquisition of Lake Michigan totaled $5.5 million during 2015, which reduced net income per common share by $0.11 in 2015.

Acquisition of Monarch Community Bancorp, Inc.

On April 1, 2015, the Corporation acquired all of the outstanding stock of Monarch Community Bancorp, Inc. (Monarch) in an all-stock transaction valued at $27.2 million. As a result of the acquisition, the Corporation issued 860,575 shares of its common stock based on an exchange ratio of 0.0982 shares of its common stock for each share of Monarch common stock outstanding. Monarch, a bank holding company, owned Monarch Community Bank, which operated five full service branch offices in Coldwater, Marshall, Hillsdale and Union City, Michigan. Monarch Community Bank was consolidated with and into Chemical Bank on May 8, 2015. The acquisition of Monarch resulted in increases in the Corporation's total assets of $183 million, including total loans of $122 million, and total deposits of $144 million, as of the acquisition date. In connection with the acquisition of Monarch, the Corporation recorded $5.3 million of goodwill, which was primarily attributable to the synergies and economies of scale expected from combining the operations of the Corporation and Monarch. In addition, the Corporation recorded $1.9 million of core deposit intangible assets in conjunction with the acquisition.

Acquisition expenses associated with the acquisition of Monarch totaled $2.3 million during 2015, which reduced net income per common share by $0.04 in 2015.

Acquisition of Northwestern Bancorp, Inc.

On October 31, 2014, the Corporation acquired all of the outstanding stock of Northwestern Bancorp, Inc. (Northwestern) for total cash consideration of $121 million. Northwestern, a bank holding company which owned Northwestern Bank, provided traditional banking services and products through 25 banking offices serving communities in the northwestern lower peninsula of Michigan. At the acquisition date, Northwestern added total assets of $815 million, including total loans of $475 million, and total deposits of $794 million, to the Corporation. Northwestern Bank was consolidated with and into Chemical Bank as of the acquisition date. In connection with the acquisition of Northwestern, the Corporation recorded $60 million of goodwill, which was primarily attributable to the synergies and economies of scale expected from combining the operations of the Corporation and Northwestern. In addition, the Corporation recorded $12.9 million of core deposit intangible assets in conjunction with the acquisition. Acquisition expenses associated with the acquisition of Northwestern totaled $5.8 million during 2014, which reduced net income per common share by $0.14 in 2014.

Acquisition of 21 Branches

On December 7, 2012, Chemical Bank acquired 21 branches from Independent Bank, a subsidiary of Independent Bank Corporation (branch acquisition transaction). In addition to the branch offices, which are located in the northeast and Battle Creek regions of Michigan, the acquisition included $404 million in deposits and $44 million in loans. 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 acquired. The loans were purchased at a discount of 1.75%. In connection with the acquisition of the branches, the Corporation recorded goodwill of $6.8 million, which represented the excess of the purchase price over the fair value of identifiable net assets acquired, and other intangible assets attributable to customer core deposits of $5.6 million.

Acquisition of O.A.K. Financial Corporation

On April 30, 2010, the Corporation acquired O.A.K. Financial Corporation (OAK) for total consideration of $83.7 million. As a result of the acquisition, the Corporation issued 3.5 million shares of its common stock. OAK, a bank holding company which owned Byron Bank, provided traditional banking services and products through 14 banking offices serving communities in Ottawa, Allegan and Kent counties in west Michigan. As of the April 30, 2010 acquisition date, OAK added total assets of $820 million, including total loans of $627 million, and total deposits of $693 million, including brokered deposits of $193 million, to the Corporation. On July 23, 2010, Byron Bank was consolidated with and into Chemical Bank. In connection with the acquisition of OAK, the Corporation recorded goodwill of $43.5 million. Goodwill recorded was primarily attributable to the synergies and economies of scale expected from combining the operations of the Corporation and OAK. In addition, the Corporation recorded other intangible assets in conjunction with the acquisition of $9.8 million.

Branch Closings

In conjunction with the consolidation of The Bank of Northern Michigan with and into Chemical Bank during the fourth quarter of 2015, the Corporation closed two branches in communities where The Bank of Northern Michigan and Chemical Bank had overlapping branches. In conjunction with the acquisition of Monarch during the second

quarter of 2015, the Corporation closed two branches in communities where Monarch Community Bank and Chemical Bank had overlapping branches. In conjunction with the acquisition of Northwestern during the fourth quarter of 2014, the Corporation closed four branches in communities where Northwestern Bank and Chemical Bank had overlapping branches. Expenses associated with these eight branch office locations were not significant, as the majority of the employees of these eight closed branch offices were transferred to other nearby Chemical Bank branch locations or other open positions within Chemical Bank.

CRITICAL ACCOUNTING POLICIES

The Corporation's consolidated financial statements are prepared in accordance with United States generally accepted accounting principles (GAAP), Securities and Exchange Commission (SEC) rules and interpretive releases and general practices within the industry in which the Corporation operates. Application of these principles requires management to make estimates, assumptions and complex judgments that affect the amounts reported in the consolidated financial statements and accompanying notes. These estimates, assumptions and judgments are based on information available as of the date of the financial statements; accordingly, as this information changes, the consolidated financial statements could reflect different estimates, assumptions and judgments. Actual results could differ significantly from those estimates. Certain policies inherently have a greater reliance on the use of estimates, assumptions and judgments and, as such, have a greater possibility of producing results that could be materially different than originally reported. The Corporation utilizes third-party sources to assist with developing estimates, assumptions and judgments regarding certain amounts reported in the consolidated financial statements and accompanying notes. When third-party sources are utilized, the Corporation's management remains responsible for complying with GAAP. To execute management's responsibilities, the Corporation has processes in place to develop an understanding of the third-party methodologies and to design and implement specific internal controls over valuation.

The significant accounting policies followed by the Corporation are presented in Note 1 to the consolidated financial statements included in Item 8 of this report. These policies, along with the disclosures presented in the other notes to the consolidated financial statements and in "Management's Discussion and Analysis of Financial Condition and Results of Operations," provide information on how significant assets and liabilities are measured in the consolidated financial statements and how those measurements are determined. Based on the techniques used and the sensitivity of financial statement amounts to the methods, estimates and assumptions underlying those amounts, management has identified the determination of the allowance for loan losses, accounting for business combinations (including acquired loans), pension plan accounting, income and other taxes, the evaluation of goodwill impairment and fair value measurements to be the accounting areas that require the most subjective or complex judgments, and as such, could be most subject to revision as new or additional information becomes available or circumstances change, including overall changes in the economic climate and/or market interest rates. Management reviews the following critical accounting policies with the Audit Committee of the board of directors at least annually.

Allowance for Loan Losses

The allowance for loan losses (allowance) is calculated with the objective of maintaining a reserve sufficient to absorb losses inherent in the loan portfolio. Loans represent the Corporation's largest asset type on the consolidated statements of financial position. The determination of the amount of the allowance is considered a critical accounting estimate because it requires significant judgment and the use of estimates related to the amount and timing of expected cash flows and collateral values on impaired loans, estimated losses on non-impaired loans in the commercial loan portfolio (comprised of commercial, commercial real estate, real estate construction and land development loans) and on pools of homogeneous loans based on historical loss experience, and consideration of current economic trends and conditions, all of which may be susceptible to significant change. The principal assumption used in deriving the allowance is the estimate of a loss percentage for each type of loan. 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, (iii) reserves, by loan classes, on all other loans based principally on a five-year historical loan loss experience, loan loss trends and giving consideration to estimated loss emergence periods, and (iv) a reserve for qualitative factors that take into consideration risks inherent in the originated loan portfolio that differ from historical loan loss experience. It is extremely difficult to identify and accurately measure the amount of losses that are inherent in the Corporation's loan portfolio. The Corporation uses a defined methodology to quantify the necessary allowance and related provision for loan losses, but there can be no assurance that the methodology will successfully identify and estimate all of the losses that are inherent in the loan portfolio. Such methodology utilizes historical loss experience (net charge-offs) adjusted for qualitative factors, including trends in credit quality, composition of and growth in the Corporation's loan portfolio, and the overall economic environment in the

Corporation's markets. These qualitative factors include many estimates and judgments. As a result, the Corporation could record future provisions for loan losses that may be significantly different than the levels that have been recorded in the three-year period ended December 31, 2015. Notes 1 and 4 to the consolidated financial statements further describe the methodology used to determine the allowance. In addition, a discussion of the factors driving changes in the amount of the allowance is included under the subheading "Allowance for Loan Losses" in "Management's Discussion and Analysis of Financial Condition and Results of Operations."

The Corporation has a loan review function that is independent of the loan origination function. At least annually, the loan review function reviews management's evaluation of the allowance and performs a detailed credit quality review, including analysis of collateral values, of loans in the commercial loan portfolio, particularly focusing on larger balance loans and loans that have deteriorated below certain levels of credit risk. In many cases, the estimate of collateral values includes significant judgments and assumptions.

Accounting for Business Combinations

Pursuant to the guidance of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 805, Business Combinations (ASC 805), the Corporation recognizes assets acquired, including identified intangible assets, and the liabilities assumed in acquisitions at their fair values as of the acquisition date, with the acquisition-related transaction and restructuring costs expensed in the period incurred. Determining the fair value of assets acquired and liabilities assumed often involves estimates based on third-party valuations, such as appraisals, or internal valuations based on discounted cash flow analyses or other valuation techniques that may include estimates of attrition, inflation, asset growth rates, discount rates, multiples of earnings or other relevant factors. In addition, the determination of the useful lives over which an intangible asset will be amortized is subjective.

Accounting for Acquired Loans

ASC Topic 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality (ASC 310-30), provides the GAAP guidance for accounting for loans acquired in a business combination that have experienced a deterioration in credit quality from origination to acquisition for which it is probable that the purchaser will be unable to collect all contractually required payments receivable, including both principal and interest.

Loans purchased with evidence of credit deterioration since origination and for which it is probable that all contractually required payments will not be collected are considered to be impaired. In the assessment of credit quality deterioration, the Corporation must make numerous assumptions, interpretations and judgments using internal and third-party credit quality information to determine whether or not 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. Evidence of credit quality deterioration as of the acquisition date may include statistics such as past due and nonaccrual status, recent borrower credit scores and loan-to-value percentages. Those loans that qualify under ASC 310-30 are recorded at fair value at acquisition, which involves estimating the expected cash flows to be received. Accordingly, the associated allowance for loan losses related to these loans is not carried over at the acquisition date. ASC 310-30 also allows investors to aggregate acquired loans into loan pools that have common risk characteristics and use a composite interest rate and expectation of cash flows to be collected for the loan pools. The Corporation understands, as outlined in the American Institute of Certified Public Accountants' open letter to the Office of the Chief Accountant of the SEC dated December 18, 2009, and pending further standard setting, that for acquired loans that do not meet the scope criteria of ASC 310-30, a company may elect to account for such acquired loans pursuant to the provisions of either ASC Topic 310-20, Nonrefundable Fees and Other Costs, or ASC 310-30. The Corporation elected to apply ASC 310-30, by analogy, to loans acquired in the Lake Michigan, Monarch, Northwestern and OAK acquisitions that were determined not to have deteriorated credit quality, and therefore, did not meet the scope criteria of ASC 310-30. Accordingly, the Corporation follows the accounting and disclosure guidance of ASC 310-30 for these loans. Notes 1, 2 and 4 to the consolidated financial statements contain additional information related to loans acquired in the Lake Michigan, Monarch, Northwestern and OAK acquisitions.

The excess of cash flows of a loan, or pool of loans, expected to be collected over the estimated fair value is referred to as the "accretable yield" and is recognized into interest income over the estimated remaining life of the loan, or pool of loans, on a level-yield basis. The difference between the contractually required payments of a loan, or pool of loans, and the cash flows expected to be collected at acquisition, considering the impact of prepayments and estimates of future credit losses expected to be incurred over the life of the loan, or pool of loans, is referred to as the "nonaccretable difference."

The Corporation is required to quarterly evaluate its estimates of cash flows expected to be collected from acquired loans. These evaluations require the continued usage of key assumptions and estimates, similar to the initial estimate of fair value. Given the current economic environment, the Corporation must apply judgment to develop its estimates of cash flows for acquired loans given the impact of changes in property values, default rates, loss severities and prepayment speeds. Decreases in the estimates of expected cash flows will generally result in a charge to the provision for loan losses and a resulting increase to the allowance for loan losses. Increases in the estimates of expected cash flows will generally result in adjustments to the accretable yield, which will increase amounts recognized in interest income in subsequent periods. Dispositions of acquired loans, which may include sales of loans to third parties, receipt of payments in full or in part by the borrower and foreclosure of the collateral, result in removal of the loan

from the acquired loan portfolio at its carrying amount. As a result of the significant amount of judgment involved in estimating future cash flows expected to be collected for acquired loans, the adequacy of the allowance for loan losses could be significantly impacted by changes in expected cash flows resulting from changes in credit quality of acquired loans.

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. Judgment is required to estimate the timing and amount of cash flows expected to be collected when the loans are not performing in accordance with the original contractual terms.

Pension Plan Accounting

The Corporation has a defined benefit pension plan for certain salaried employees. Effective June 30, 2006, benefits under the defined benefit pension plan were frozen for approximately two-thirds of the Corporation's salaried employees as of that date. Pension benefits continued unchanged for the remaining salaried employees. At December 31, 2015, 161 employees, or 7.6% of total employees on a full-time equivalent basis, were earning pension benefits under the defined benefit pension plan. The Corporation's pension benefit obligations and related costs are calculated using actuarial concepts and measurements. Benefits under the plan are based on years of vested service, age and amount of compensation. Assumptions are made concerning future events that will determine the amount and timing of required benefit payments, funding requirements and pension expense.

The key actuarial assumptions used in the pension plan are the discount rate and long-term rate of return on plan assets. These assumptions have a significant effect on the amounts reported for net periodic pension expense, as well as the respective benefit obligation amounts. The Corporation evaluates these critical assumptions annually. At December 31, 2015, 2014 and 2013, the Corporation calculated a discount rate of 4.55%, 4.15% and 5.00%, respectively, for the pension plan using the results from a bond matching technique, which matched the future estimated annual benefit payments of the pension plan against a portfolio of bonds of Aa quality to determine the discount rate.

The assumed long-term rate of return on pension plan assets represents an estimate of long-term returns on an investment portfolio consisting primarily of equity and fixed income investments. When determining the expected long-term return on pension plan assets, the Corporation considers long-term rates of return on the asset classes in which the Corporation expects the pension funds to be invested. The expected long-term rate of return is based on both historical and forecasted returns of the overall stock and bond markets and the actual portfolio. The difference between the expected return and the actual return on pension plan assets during the year is either an asset gain or loss, which is deferred and amortized over future periods when determining net periodic pension expense. The Corporation's projection of the long-term return on pension plan assets was 7.0% in 2015, 2014 and 2013, while the actual return on pension plan assets was 0.7%, 4.7% and 18.2% in 2015, 2014 and 2013, respectively.

Other assumptions made in the pension plan calculations involve employee demographic factors, such as retirement patterns, mortality, turnover and the rate of compensation increase.

The key actuarial assumptions that will be used to calculate pension expense in 2016 for the defined benefit pension plan are a discount rate of 4.55%, a long-term rate of return on pension plan assets of 6.75% and a rate of compensation increase of 3.5%. The Corporation is expected to have pension expense of $0.1 million in 2016, compared to $1.6 million in 2015. The expected decrease in pension expense in 2016, as compared to 2015, is primarily attributable to an increase in the discount rate used to measure the present value of expected future benefit payments and an increase in retirement age assumptions for employees. In 2016, a decrease in the discount rate of 50 basis points and 100 basis points is estimated to increase pension expense by $0.6 million and $1.2 million, respectively, while an increase of 50 basis points and 100 basis points is estimated to decrease pension expense by approximately the same amounts.

There are uncertainties associated with the underlying key actuarial assumptions, and the potential exists for significant, and possibly material, impacts on either or both the results of operations and cash flows (e.g., additional pension expense and/or additional pension plan funding, whether expected or required) from changes in the key actuarial assumptions. If the Corporation were to determine that more conservative assumptions are necessary, pension expense would increase and have a negative impact on results of operations in the period in which the increase occurs.

The Corporation accounts for its defined benefit pension and other postretirement plans in accordance with ASC Topic 715, Compensation-Retirement Benefits, which requires companies to recognize the over- or under-funded status of a plan as an asset or liability as measured by the difference between the fair value of the plan assets and the projected benefit obligation and requires any unrecognized prior service costs and actuarial gains and losses to be recognized as a component of accumulated other comprehensive income (loss). The impact of pension plan accounting on the statements of financial position at December 31, 2015 and 2014 is further discussed in Note 16 to the consolidated financial statements.

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 provisions 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.

The Corporation and its subsidiaries file a consolidated federal income tax return. The provision for federal income taxes is based on income and expenses, as reported in the consolidated financial statements, rather than amounts reported on the Corporation's federal income tax return. When income and expenses are recognized in different periods for tax purposes than for book purposes, applicable deferred tax assets and liabilities are recognized for the future tax consequences attributable to the differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized as income or expense in the period that includes the enactment date.

On a quarterly basis, management assesses the reasonableness of its effective federal tax rate based upon its estimate of taxable income and the applicable taxes expected for the full year, including the impact of any discrete items that have occurred. Deferred tax assets and liabilities are reassessed on a quarterly basis, including the need for a valuation allowance for deferred tax assets. The need for reserves for uncertain tax positions is reviewed quarterly based upon developments in tax law and the status of examinations or audits. As of December 31, 2015 and 2014, there were no federal income tax reserves recorded for uncertain tax positions.

Goodwill

Goodwill represents the excess of the purchase price of the Corporation's acquisition of various banks and bank branches over the fair value of the net assets acquired in the various acquisitions. The Corporation's goodwill totaled $287.4 million at December 31, 2015, compared to $180.1 million at December 31, 2014. The increase in goodwill during 2015 was due to the Lake Michigan and Monarch transactions. Goodwill is not amortized, but rather is tested by management annually for impairment, or more frequently if triggering events occur and indicate potential impairment, in accordance with ASC Topic 350-20, Goodwill (ASC 350-20). ASC 350-20 allows an entity to assess qualitative factors to determine whether it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount. ASC 350-20 also allows an entity to bypass the qualitative assessment approach and determine if goodwill is impaired utilizing a quantitative assessment approach. The Corporation performed its 2015 annual goodwill impairment assessment as of October 31, 2015 utilizing the qualitative assessment approach.

In evaluating whether it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount, the Corporation assesses relevant events and circumstances, including macroeconomic conditions, industry and market considerations, overall financial performance, changes in the composition or carrying amount of assets and liabilities, the market price of the Corporation's common stock, and other relevant factors. Based on the qualitative assessment performed, the Corporation determined that no goodwill impairment was evident as of the October 31, 2015 assessment date. The Corporation also determined that no triggering events occurred that indicated potential impairment of goodwill from the most recent assessment date through December 31, 2015 and that the Corporation's goodwill was not impaired at December 31, 2015. However, the Corporation could incur impairment charges related to goodwill in the future due to changes in financial results or other matters that could affect the fair value of the Corporation's reporting units.

Fair Value Measurements

The Corporation determines the fair value of its assets and liabilities in accordance with ASC Topic 820, Fair Value Measurements and Disclosures (ASC 820). ASC 820 establishes a standard framework for measuring and disclosing fair value under GAAP. Estimates, assumptions and judgments may be necessary when assets and liabilities are required to be recorded at fair value or when a decline in the value of an asset not carried at fair value on the financial statements warrants an impairment write-down or a valuation reserve to be established. Carrying assets and liabilities

at fair value inherently results in more financial statement volatility. The fair values and the information used to record valuation adjustments for certain assets and liabilities are based either on quoted market prices or are provided by third-party sources, when available. When third-party information is not available, valuation adjustments are estimated by management primarily through the use of internal discounted cash flow analyses, and to the extent available, observable market-based inputs.

A number of valuation techniques are used to determine the fair value of assets and liabilities in the Corporation's financial statements. The valuation techniques include quoted market prices for investment securities, appraisals of real estate from independent licensed appraisers and other valuation techniques. Fair value measurements for assets and liabilities where limited

or no observable market data exists are based primarily upon estimates, and are often calculated based on the economic and competitive environment, the characteristics of the asset or liability and other factors. Therefore, the valuation results cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset or liability. Additionally, there are inherent weaknesses in any calculation technique, and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, could significantly affect the results of current or future values. Significant changes in the aggregate fair value of assets and liabilities required to be measured at fair value or for impairment are recognized in the income statement under the framework established by GAAP. See Note 13 to the Corporation's consolidated financial statements for more information on fair value measurements.

Accounting Standards Updates

See Note 1 to the consolidated financial statements included in this report for details of accounting pronouncements adopted by the Corporation during 2015 and recently issued and pending accounting pronouncements and their potential impact on the Corporation's financial statements.

FINANCIAL HIGHLIGHTS

The following discussion and analysis is intended to cover significant factors affecting the Corporation's consolidated statements of financial position and income included in this report. It is designed to provide a more comprehensive review of the consolidated operating results and financial position of the Corporation than could be obtained from an examination of the financial statements alone.

NON-GAAP FINANCIAL MEASURES

This report contains references to financial measures that are not defined in GAAP. Such non-GAAP financial measures include the Corporation's tangible equity to tangible assets ratio, presentation of net interest income and net interest margin on a fully taxable equivalent (FTE) basis and information presented excluding nonrecurring acquisition-related expenses, including net income, diluted earnings per share, return on average assets, return on average shareholders' equity and operating expenses. These non-GAAP financial measures have been included as the Corporation believes they are helpful for investors to analyze and evaluate the Corporation's financial performance. Limitations associated with non-GAAP financial measures include the risk that persons might disagree as to the appropriateness of items comprising these measures and that different companies might calculate these measures differently. These non-GAAP disclosures should not be considered an alternative to the Corporation's GAAP results. A reconciliation of the Corporation's non-GAAP financial measures follows:

	Year Ended December 31,			
	2015		2014	
	(Dollars in thousands, except per share data)			
Non-GAAP Operating Results				
Net Income				
Net income, as reported	$86,830		$62,121	
Acquisition-related expenses, net of tax	5,484		4,555	
Net income, excluding acquisition-related expenses	$92,314		$66,676	
Diluted Earnings Per Share				
Diluted earnings per share, as reported	$2.39		$1.97	
Effect of acquisition-related expenses, net of tax	0.15		0.14	
Diluted earnings per share, excluding acquisition-related expenses	$2.54		$2.11	
Return on Average Assets				
Return on average assets, as reported	1.02	%	0.96	%
Effect of acquisition-related expenses, net of tax	0.07		0.07	
Return on average assets, excluding acquisition-related expenses	1.09	%	1.03	%
Return on Average Shareholders' Equity				
Return on average shareholders' equity, as reported	9.4	%	8.2	%
Effect of acquisition-related expenses, net of tax	0.6		0.6	
Return on average shareholders' equity, excluding acquisition-related expenses	10.0	%	8.8	%

	December 31, 2015	December 31, 2014
	(Amounts in thousands, except per share data)	
Tangible Book Value (Year End)		
Shareholders' equity, as reported	$1,015,974	$797,133
Goodwill, core deposit intangible assets and noncompete agreements, net of tax	(299,123)	(188,505)
Tangible shareholders' equity	$716,851	$608,628
Common shares outstanding	38,168	32,774
Book value per share (shareholders' equity, as reported, divided by common shares outstanding)	$26.62	$24.32
Tangible book value per share (tangible shareholders' equity divided by common shares outstanding)	$18.78	$18.57

NET INCOME

Net income in 2015 was $86.8 million, or $2.39 per diluted share, compared to net income in 2014 of $62.1 million, or $1.97 per diluted share and net income in 2013 of $56.8 million, or $2.00 per diluted share. Net income included nonrecurring acquisition-related expenses of $7.8 million in 2015 and $6.4 million in 2014. Excluding nonrecurring acquisition-related expenses, net income in 2015 was $92.3 million, or $2.54 per diluted share, compared to net income in 2014 of $66.7 million, or $2.11 per diluted share. Excluding nonrecurring acquisition-related expenses, the increase in net income in 2015, compared to 2014, was primarily attributable to incremental earnings resulting from the Lake Michigan, Monarch and Northwestern acquisitions, while the increase in net income in 2014, compared to 2013, was primarily attributable to an increase in net interest income, a decrease in the provision for loan losses and the impact of the acquisition of Northwestern, which were partially offset by an increase in operating expenses.

The Corporation's return on average assets was 1.02% in 2015, 0.96% in 2014 and 0.95% in 2013 and the Corporation's return on average shareholders' equity was 9.4% in 2015, 8.2% in 2014 and 9.1% in 2013. Excluding nonrecurring acquisition-related expenses, the Corporation's return on average assets was 1.09% in 2015 and 1.03% in 2014 and the Corporation's return on average shareholders' equity was 10.0% in 2015 and 8.8% in 2014.

ASSETS

Total assets were $9.19 billion at December 31, 2015, an increase of $1.87 billion, or 25%, from total assets at December 31, 2014 of $7.32 billion. The increase in total assets during 2015 was primarily attributable to the Lake Michigan and Monarch acquisitions, which increased the Corporation's total assets by $1.47 billion as of the respective acquisition dates. The increase in total assets was also partially attributable to an increase in customer deposits that were utilized to partially fund loan growth.

Average assets were $8.48 billion during 2015, an increase of $2.01 billion, or 31%, from average assets of $6.47 billion during 2014. Average assets during 2014 increased $509 million, or 8.5%, from average assets of $5.96 billion during 2013. The increase in average assets during 2015, as compared to 2014, was attributable to a combination of the $1.47 billion of assets acquired in the Lake Michigan and Monarch transactions and a $382 million organic increase in customer deposits that were utilized to partially fund loan growth. The increase in average assets during 2014, as compared to 2013, was largely attributable to an increase in customer deposits that were utilized to partially fund loan growth, although also attributable to the $794 million of deposits acquired in the Northwestern transaction. Excluding the $794 million of deposits acquired in the Northwestern transaction on October 31, 2014, average customer deposits were approximately $250 million higher in 2014 than 2013.

INVESTMENT SECURITIES

Information about the Corporation's investment securities portfolio is summarized in Tables 1 and 2. The following table summarizes the maturities and yields of the carrying value of investment securities by investment category, and fair value by investment category, at December 31, 2015:

TABLE 1. MATURITIES AND YIELDS[1] OF INVESTMENT SECURITIES AT DECEMBER 31, 2015

	Maturity[2]										
	Within One Year		After One but Within Five Years		After Five but Within Ten Years		After Ten Years		Total Carrying Value[3]		Total Fair Value
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	
	(Dollars in thousands)										
Available-for-Sale:											
U.S. Treasury securities	$—	— %	$5,765	0.95 %	$—	— %	$—	— %	$5,765	0.95 %	$5,765
Government sponsored agencies	59,963	0.66	132,207	1.11	2,648	1.08	171	1.14	194,989	0.97	194,989
State and political subdivisions	1,976	3.25	11,403	4.26	1,741	5.89	—	—	15,120	4.32	15,120
Residential mortgage-backed securities	42,110	1.39	114,971	1.37	28,803	1.62	1,884	3.15	187,768	1.43	187,768
Collateralized mortgage obligations	55,993	1.06	59,841	1.29	14,886	1.82	1,510	1.76	132,230	1.26	132,230
Corporate bonds	10,056	1.38	—	—	4,571	2.72	—	—	14,627	1.80	14,627
Preferred stock and trust preferred securities	—	—	—	—	—	—	3,232	4.25	3,232	4.25	3,232
Total investment securities available-for-sale	170,098	1.05	324,187	1.34	52,649	1.89	6,797	2.86	553,731	1.32	553,731
Held-to-Maturity:											
State and political subdivisions	59,834	2.02	236,141	2.68	136,383	3.87	77,113	4.61	509,471	3.21	512,405
Trust preferred securities	—	—	—	—	—	—	500	5.75	500	5.75	300
Total investment securities held-to-maturity	59,834	2.02	236,141	2.68	136,383	3.87	77,613	4.62	509,971	3.22	512,705
Total investment securities	$229,932	1.30 %	$560,328	1.91 %	$189,032	3.32 %	$84,410	4.48 %	$1,063,702	2.23 %	$1,066,436

(1) Yields are weighted by amount and time to contractual maturity, are on a taxable equivalent basis using a 35% federal income tax rate and are based on carrying value. Yields disclosed are actual yields based on carrying value at December 31, 2015. Approximately 10% of the Corporation's investment securities at December 31, 2015 were variable-rate financial instruments.

(2) Residential mortgage-backed securities, collateralized mortgage obligations and certain government sponsored agencies are based on scheduled principal maturity. All other investment securities are based on final contractual maturity.

(3) The aggregate book value of securities issued by any single issuer, other than the U.S. government and government sponsored agencies, did not exceed 10% of the Corporation's shareholders' equity.

The Corporation utilizes third-party pricing services to obtain market value prices for its investment securities portfolio. On a quarterly basis, the Corporation validates the reasonableness of prices received from the third-party pricing services through independent price verification on a sample of investment securities in the portfolio, data integrity validation based upon comparison of current market prices to prior period market prices and analysis of overall expectations of movement in market prices based upon the changes in the related yield curves and other market factors. On a quarterly basis, the Corporation reviews the pricing methodology of the third-party pricing vendors and the results of the vendors' internal control assessments to ensure the integrity of the process that the vendor uses to develop market pricing for the Corporation's investment securities portfolio.

The carrying value of investment securities totaled $1.06 billion at December 31, 2015, compared to $1.07 billion at December 31, 2014. The Corporation acquired $67 million of investment securities in the Lake Michigan transaction. In addition, the Corporation utilized maturing available-for-sale investment securities during 2015 to significantly increase its holdings in state and political subdivisions and to partially fund loan growth. Investment securities increased $107 million, or 11%, during 2014, with the increase attributable to $230 million of investment securities acquired in the Northwestern transaction as of the acquisition date, comprised primarily of debt instruments sponsored or backed by U.S. government agencies, which were partially offset by the Corporation utilizing maturing investment securities in 2014 to partially fund loan growth. The Corporation increased its holdings in state and political subdivisions in 2015 and 2014, as it was able to identify municipal investments within its operating markets that both met its investment objectives and provided an attractive yield when compared to other investment securities options. The Corporation's investment securities portfolio as of December 31, 2015 had a weighted average life of approximately 3.3 years and an effective duration of approximately 2.2 years.

The following table summarizes the carrying value of investment securities at December 31, 2015, 2014 and 2013:
TABLE 2. SUMMARY OF INVESTMENT SECURITIES

	December 31, 2015 (In thousands)	2014	2013
Available-for-Sale:			
U.S. Treasury securities	$5,765	$8,259	$—
Government sponsored agencies	194,989	263,503	93,763
State and political subdivisions	15,120	46,227	43,798
Residential mortgage-backed securities	187,768	239,807	299,366
Collateralized mortgage obligations	132,230	144,383	180,941
Corporate bonds	14,627	45,095	65,275
Preferred stock and trust preferred securities	3,232	1,590	1,427
Total investment securities available-for-sale	553,731	748,864	684,570
Held-to-Maturity:			
State and political subdivisions	509,471	305,913	263,405
Trust preferred securities	500	10,500	10,500
Total investment securities held-to-maturity	509,971	316,413	273,905
Total investment securities	$1,063,702	$1,065,277	$958,475

At December 31, 2015, the Corporation's investment securities portfolio consisted of: U.S. Treasury securities, comprised of fixed-rate government debt instruments issued by the U.S. Department of Treasury, totaling $5.8 million; government sponsored agency (GSA) debt obligations, comprised primarily of fixed-rate instruments backed by Federal Home Loan Banks, Federal Farm Credit Banks and Student Loan Marketing Corporation, totaling $195.0 million; state and political subdivisions debt obligations, comprised primarily of general debt obligations of issuers primarily located in the State of Michigan, totaling $524.6 million; residential mortgage-backed securities (MBSs), comprised primarily of fixed-rate instruments backed by a U.S. government agency (Government National Mortgage Association) or government sponsored enterprises (Federal Home Loan Mortgage Corporation and Federal National Mortgage Association), totaling $187.8 million; collaterized mortgage obligations (CMOs), comprised of approximately 75% fixed-rate and 25% variable-rate instruments backed by the same U.S. government agency and government sponsored enterprises as the residential MBSs, with average maturities of less than three years, totaling $132.2 million; corporate bonds, comprised primarily of debt obligations of large U.S. global financial organizations, totaling $14.6 million; preferred stock and trust preferred securities (TRUPs), comprised of preferred stock debt instruments of two large regional/national banks and variable-rate TRUPs from both a publicly-traded bank holding company and a small non-public bank holding company, totaling $3.7 million. Fixed-rate instruments comprised approximately 90% of the Corporation's investment securities portfolio at December 31, 2015.

The Corporation records all investment securities in accordance with ASC Topic 320, Investments-Debt and Equity Securities (ASC 320), under which the Corporation is required to assess equity and debt securities that have fair values below their amortized cost basis to determine whether the decline (impairment) is other-than-temporary. 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 considering all reasonably 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. In assessing whether a decline is other-than-temporary, management considers, among other things (i) the length of time and the extent to which the fair value has been less than amortized cost, (ii) the financial condition and near-term prospects of the issuer, (iii) the potential for impairments in an entire industry or sub-sector and (iv) the potential for impairments in certain economically depressed geographical locations.

The Corporation's investment securities portfolio, with a carrying value of $1.06 billion at December 31, 2015, had gross impairment of $9.1 million at that date. Management believed that the unrealized losses on investment securities were temporary in nature and due primarily to changes in interest rates on the investment securities and market illiquidity, and not as a result of credit-related issues. Accordingly, the Corporation believed the impairment in its

investment securities portfolio at December 31, 2015 was temporary in nature, and therefore, no impairment loss was recognized in the Corporation's consolidated statement of income in 2015. However, other-than-temporary impairment (OTTI) may occur in the future as a result of material declines in the fair value of investment securities resulting from market, credit, economic or other conditions. A further discussion of the assessment of potential impairment and the Corporation's process that resulted in the conclusion that the impairment was temporary in nature follows.

At December 31, 2015, the gross impairment in the Corporation's investment securities portfolio of $9.1 million was comprised as follows: GSA securities, residential MBSs and CMOs, combined, of $4.2 million, state and political subdivisions securities of $4.5 million, corporate bonds of $0.2 million and TRUPs of $0.2 million. The amortized costs and fair values of investment securities are disclosed in Note 3 to the consolidated financial statements.
GSA securities, residential MBSs and CMOs, included in the available-for-sale investment securities portfolio, had a combined amortized cost of $518 million and gross impairment of $4.2 million at December 31, 2015. Virtually all of the impaired investment securities in these categories are backed by the full faith and credit of the U.S. government or a guarantee of a U.S. government agency or government sponsored enterprise. The Corporation determined that the impairment on these investment securities was attributable to current market interest rates being higher than the yields being earned on these investment securities. The Corporation concluded that the impairment of its GSA securities, residential MBSs and CMOs was temporary in nature at December 31, 2015.
State and political subdivisions securities, included in both the available-for-sale and held-to-maturity investment securities portfolios, had an amortized cost of $524 million and gross impairment of $4.5 million at December 31, 2015. The Corporation's state and political subdivisions securities are almost entirely from issuers primarily located in the State of Michigan and of which approximately 80% are general obligations of the issuer, meaning that repayment of these obligations is funded by general tax collections of the issuer. The gross impairment was attributable to impaired state and political subdivisions securities with an amortized cost of $268 million that generally mature beyond 2017. It was the Corporation's assessment that the impairment on these investment securities was attributable to current market interest rates being slightly higher than the yield on these investment securities, illiquidity in the market for a portion of these investment securities caused by the market's perception of the Michigan economy, and illiquidity in the market due to the nature of a portion of these investment securities. The Corporation concluded that the impairment of its state and political subdivisions securities was temporary in nature at December 31, 2015.
At December 31, 2015, the Corporation held one TRUP in the held-to-maturity investment securities portfolio, with an amortized cost of $0.5 million and gross impairment of $0.2 million. This TRUP represents a 10% interest in the TRUP of a well-capitalized non-public bank holding company in Michigan. The principal of $0.5 million of this TRUP matures in 2033, with interest payments due quarterly. All scheduled interest payments on this TRUP have been made on a timely basis. The Corporation determined that the impairment on this TRUP was attributable to a lack of liquidity for issuances of this size. The Corporation concluded that the impairment was temporary in nature at December 31, 2015.
At December 31, 2015, the Corporation expected to fully recover the entire amortized cost basis of each impaired investment security in its investment securities portfolio at that date. Furthermore, at December 31, 2015, 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 would not have to sell any of its impaired investment securities before a full recovery of amortized cost. However, there can be no assurance that OTTI losses will not be recognized on any investment security in the future.

LOANS

The Corporation's loan portfolio is comprised of commercial, commercial real estate, real estate construction and land development loans, referred to as the Corporation's commercial loan portfolio, and residential mortgage, consumer installment and home equity loans, referred to as the Corporation's consumer loan portfolio. At December 31, 2015, the Corporation's loan portfolio was $7.27 billion and consisted of loans in the commercial loan portfolio totaling $4.25 billion, or 58% of total loans, and loans in the consumer loan portfolio totaling $3.02 billion, or 42% of total loans. Loans at fixed interest rates comprised 74% of the Corporation's total loan portfolio at December 31, 2015, compared to 77% at December 31, 2014 and 76% at December 31, 2013.
Chemical Bank is a full-service commercial bank and the acceptance and management of credit risk is an integral part of the Corporation's business. 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 or any loans to finance highly leveraged transactions. The Corporation's lending philosophy is implemented through strong administrative and reporting controls. The Corporation maintains a centralized independent loan review function that monitors the

approval process and ongoing asset quality of the loan portfolio.

Total loans were $7.27 billion at December 31, 2015, an increase of $1.58 billion, or 28%, from total loans of $5.69 billion at December 31, 2014. The increase in total loans during 2015 was attributable to $1.11 billion of loans acquired in the Lake Michigan and Monarch acquisitions and organic loan growth of $476 million, or 8.4%. Total loans increased $1.04 billion, or 22%, during 2014, from total loans of $4.65 billion at December 31, 2013. The increase in total loans during 2014 was attributable to organic loan growth of $565 million, or 12%, and $475 million of loans acquired in the Northwestern transaction. Organic loan growth during 2015 and 2014 generally occurred across all major loan categories and across all of the Corporation's banking markets and was attributable to a combination of improving economic conditions and higher loan demand, as well as the Corporation increasing its market share in both its commercial and consumer loan portfolios.

A summary of the Corporation's acquisition-related loan growth during 2015 and 2014 follows:

	2015 Lake Michigan (May 31, 2015) (In millions)	Monarch (April 1, 2015)	Total	2014 North-western (October 31, 2014)
Commercial loan portfolio:				
Commercial	$301	$19	$320	$46
Commercial real estate	532	45	577	223
Real estate construction	2	—	2	3
Land development	—	—	—	11
Subtotal	835	64	899	283
Consumer loan portfolio:				
Residential mortgage	95	49	144	106
Consumer installment	8	—	8	6
Home equity	48	9	57	80
Subtotal	151	58	209	192
Total loans	$986	$122	$1,108	$475

Table 3 includes the composition of the Corporation's loan portfolio, by major loan category, as of December 31 for each of the past five years.

TABLE 3. SUMMARY OF LOANS

	December 31, 2015 (In thousands)	2014	2013	2012	2011
Commercial loan portfolio:					
Commercial	$1,905,879	$1,354,881	$1,176,307	$1,002,722	$895,150
Commercial real estate	2,112,162	1,557,648	1,232,658	1,161,861	1,071,999
Real estate construction	210,231	152,745	89,795	62,689	73,355
Land development	21,845	18,750	20,066	37,548	44,821
Subtotal — commercial loan portfolio	4,250,117	3,084,024	2,518,826	2,264,820	2,085,325
Consumer loan portfolio:					
Residential mortgage	1,429,636	1,110,390	960,423	883,835	861,716
Consumer installment	877,457	829,570	644,769	546,036	484,058
Home equity	713,937	664,246	523,603	473,044	400,186
Subtotal — consumer loan portfolio	3,021,030	2,604,206	2,128,795	1,902,915	1,745,960
Total loans	$7,271,147	$5,688,230	$4,647,621	$4,167,735	$3,831,285

A discussion of the Corporation's loan portfolio by category follows.

Commercial Loan Portfolio

The Corporation's commercial loan portfolio is comprised of commercial loans, commercial real estate loans, real estate construction loans and land development loans. The Corporation's commercial loan portfolio is well diversified across business lines and has no concentration in any one industry. The commercial loan portfolio of $4.25 billion at December 31, 2015 included 126 loan relationships of $5.0 million or greater. These 126 loan relationships totaled $1.27 billion, which represented 30% of the commercial loan portfolio at December 31, 2015 and included 42 loan relationships that had outstanding balances of $10 million or higher, totaling $689 million, or 16% of the commercial loan portfolio, at that date. The Corporation had 10 loan relationships that had outstanding balances of $20 million or higher, totaling $255 million, or 6.0% of the commercial loan portfolio, at December 31, 2015. The Corporation had 13 loan relationships at December 31, 2015 with loan balances greater than $5.0 million and less than $10 million, totaling $110 million, that had unfunded credit commitments totaling $58 million that, if advanced, could result in a loan relationship of $10 million or more.

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Table 4 presents the maturity distribution of the Corporation's $4.25 billion commercial loan portfolio at December 31, 2015. The percentage of these loans maturing within one year was 26% at December 31, 2015, while the percentage of these loans maturing beyond five years remained low at 18% at December 31, 2015. At December 31, 2015, loans in the commercial loan portfolio with maturities beyond one year totaled $3.16 billion, with 73% of these loans at fixed interest rates.

TABLE 4. COMPARISON OF LOAN MATURITIES AND INTEREST SENSITIVITY

	December 31, 2015			
	Due In			
	1 Year or Less	1 to 5 Years	Over 5 Years	Total
	(Dollars in thousands)			
Loan maturities:				
Commercial	$756,291	$907,100	$242,488	$1,905,879
Commercial real estate	257,426	1,392,219	462,517	2,112,162
Real estate construction and land development	74,671	103,027	54,378	232,076
Total	$1,088,388	$2,402,346	$759,383	$4,250,117
Percent of total	26 %	56 %	18 %	100 %
Interest sensitivity of above loans:				
Fixed interest rates	$301,581	$1,776,914	$523,270	$2,601,765
Variable interest rates	786,807	625,432	236,113	1,648,352
Total	$1,088,388	$2,402,346	$759,383	$4,250,117

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

Commercial loans were $1.91 billion at December 31, 2015, an increase of $551 million, or 41%, from commercial loans of $1.35 billion at December 31, 2014. Commercial loans grew organically by $230 million, or 17%, during 2015, with the remainder of the growth attributable to the two acquisition transactions completed during the year. Commercial loans increased $179 million, or 15%, during 2014 from commercial loans of $1.18 billion at December 31, 2013. Commercial loans grew organically by $133 million, or 11%, during 2014, with the remainder of the growth attributable to the Northwestern transaction. Commercial loans represented 26.2% of the Corporation's loan portfolio at December 31, 2015, compared to 23.8% and 25.3% at December 31, 2014 and 2013, respectively.

Commercial real estate loans include loans that are 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. Commercial real estate loans were $2.11 billion at December 31, 2015, an increase of $555 million, or 36%, from commercial real estate loans of $1.56 billion at December 31, 2014. The growth in commercial real estate loans during 2015 was attributable to the two acquisitions completed during the year. Loans secured by owner occupied properties, non-owner occupied properties and vacant land comprised 51%, 46% and 3%, respectively, of the Corporation's commercial real estate loans outstanding at December 31, 2015. Commercial real estate loans increased $325 million, or 26%, during 2014 from commercial real estate loans of $1.23 billion at December 31, 2013. Commercial real estate loans grew organically by $103 million, or 8.3%, during 2014, with the remainder of growth due to the Northwestern transaction. Commercial real estate loans represented 29.0% of the Corporation's loan portfolio at December 31, 2015, compared to 27.4% and 26.5% at December 31, 2014 and 2013, respectively.

Commercial and commercial real estate lending is generally considered to involve a higher degree of risk than residential mortgage, consumer installment and home equity lending as they typically involve larger loan balances concentrated in a single borrower. In addition, the payment experience on loans secured by income-producing properties and vacant land loans is typically dependent on the success of the operation of the related project and is typically affected by adverse conditions in the real estate market and in the economy. The Corporation generally

attempts to mitigate the risks associated with commercial and commercial real estate lending by, among other things, lending primarily in its market areas, lending across industry lines, not developing a concentration in any one line of business and using prudent loan-to-value ratios in the underwriting process. It is management's belief that the Corporation's commercial and commercial real estate loan portfolios are generally well-secured.

Real estate construction loans are primarily originated for construction of commercial properties and often convert to a commercial real estate loan at the completion of the construction period. Real estate construction loans were $210 million at December 31, 2015, an increase of $57 million, or 38%, from real estate construction loans of $153 million at December 31, 2014. Real estate construction loans increased $63 million, or 70%, during 2014 from real estate construction loans of $90 million at December 31, 2013. The increase in real estate construction loans during both 2015 and 2014 was largely attributable to advances on new and existing commercial construction projects, representing a combination of owner and non-owner occupied commercial properties. Real estate construction loans represented 2.9% of the Corporation's loan portfolio at December 31, 2015, compared to 2.7% and 1.9% at December 31, 2014 and 2013, respectively.

Land development loans include loans made to developers for the purpose of infrastructure improvements to vacant land to create finished marketable residential and commercial lots/land. A majority of the Corporation's land development loans consist of loans to develop residential real estate. Land development loans are generally originated as interest only with the intention that the loan principal balance will be repaid through the sale of finished properties by the developers within twelve months of the completion date. Land development loans were $21.8 million at December 31, 2015, an increase of $3.1 million, or 16.5%, from land development loans of $18.8 million at December 31, 2014. Land development loans decreased $1.3 million, or 6.6%, during 2014 from land development loans of $20.1 million at December 31, 2013. Land development loans represented 0.3% of the Corporation's loan portfolio at both December 31, 2015 and December 31, 2014, compared to 0.4% at December 31, 2013.

Real estate construction and land development lending involves a higher degree of risk than commercial real estate lending and residential mortgage lending because of the uncertainties of construction, including the possibility of costs exceeding the initial estimates, the need to obtain a tenant or purchaser of the property if it will not be owner-occupied or the need to sell developed properties. The Corporation generally attempts to mitigate the risks associated with real estate construction and land development lending by, among other things, lending primarily in its market areas, using prudent underwriting guidelines and closely monitoring the construction process. At December 31, 2015, $1.7 million, or 8%, of the Corporation's $21.8 million of land development loans were impaired, whereby the Corporation determined it was probable that the full amount of principal and interest would not be collected on these loans in accordance with their original contractual terms. At December 31, 2014, $1.9 million, or 10% of the Corporation's $18.8 million of land development loans were impaired.

Consumer Loan Portfolio

The Corporation's consumer loan portfolio is comprised of residential mortgage loans, consumer installment loans and home equity loans and lines of credit.

Residential mortgage loans consist primarily of one- to four-family residential loans with fixed interest rates of fifteen years or less, with amortization periods generally from fifteen to thirty years. The loan-to-value ratio at the time of origination is generally 80% or less. Loans with more than an 80% loan-to-value ratio generally require private mortgage insurance. At December 31, 2015, approximately 70% of the Corporation's residential mortgage loans had an original loan-to-value ratio of 80% or less.

Residential mortgage loans were $1.43 billion at December 31, 2015, an increase of $319 million, or 29%, from residential mortgage loans of $1.11 billion at December 31, 2014. Residential mortgage loans grew organically by $175 million, or 16%, during 2015, with the remainder of the growth attributable to the two acquisition transactions completed during the year. Residential mortgage loans increased $150 million, or 16%, during 2014 from residential mortgage loans of $960.4 million at December 31, 2013. Residential mortgage loans grew organically by $44 million, or 4.5%, during 2014, with the remainder of the growth attributable to the Northwestern transaction. Residential mortgage loans had historically involved the least amount of credit risk in the Corporation's loan portfolio, although the risk on these loans increased during the most recent economic downturn when the unemployment rate increased and real estate property values declined in the State of Michigan. Residential mortgage loans also include loans to consumers for the construction of single family residences that are secured by these properties. Residential mortgage construction loans to consumers were $62.2 million at December 31, 2015, compared to $42.5 million at December 31, 2014 and $37.9 million at December 31, 2013. Residential mortgage loans represented 19.7% of the Corporation's loan portfolio at December 31, 2015, compared to 19.5% and 20.7% at December 31, 2014 and 2013, respectively. The Corporation had residential mortgage loans with maturities beyond five years and that were at fixed

interest rates totaling $379 million at December 31, 2015, compared to $306 million at December 31, 2014.
The Corporation's consumer installment loans consist of relatively small loan amounts to consumers to finance personal items (primarily automobiles, recreational vehicles and marine vehicles) and are comprised primarily of indirect loans purchased from dealerships. Consumer installment loans were $877 million at December 31, 2015, an increase of $48 million, or 5.8%, from consumer installment loans of $829.6 million at December 31, 2014. Consumer installment loans increased $185 million, or 29%, during 2014 from consumer installment loans of $645 million at December 31, 2013. The increases in the Corporation's consumer installment loans during 2015 and 2014 were primarily attributable to organic growth. At December 31, 2015, collateral securing consumer installment loans was comprised approximately as follows: automobiles - 58%; recreational vehicles - 25%; marine vehicles - 12%; other collateral - 4%; and unsecured - 1%. Consumer installment loans represented 12.1% of the Corporation's loan portfolio at December 31, 2015, compared to 14.6% and 13.9% at December 31, 2014 and 2013, respectively.

The Corporation's home equity loans, including home equity lines of credit, are comprised of loans to consumers who utilize equity in their personal residence, including junior lien mortgages, as collateral to secure the loan or line of credit. Home equity loans were $714 million at December 31, 2015, an increase of $50 million, or 7.5%, from home equity loans of $664 million at December 31, 2014. The growth in home equity loans during 2015 was attributable to the two acquisitions completed during the year. Home equity loans increased $141 million, or 27%, during 2014 from home equity loans of $524 million at December 31, 2013. Home equity loans grew organically by $61 million, or 12%, during 2014, with the remainder of the growth attributable to the Northwestern transaction. At December 31, 2015, approximately 60% of the Corporation's home equity loans were first lien mortgages and 40% were junior lien mortgages. Home equity loans represented 9.8% of the Corporation's loan portfolio at December 31, 2015, compared to 11.7% and 11.3% at December 31, 2014 and 2013, respectively. Home equity lines of credit comprised $278 million, or 39%, of the Corporation's home equity loans at December 31, 2015, compared to $231 million, or 35%, of home equity loans at December 31, 2014. The majority of the Corporation's home equity lines of credit are comprised of loans with payments of interest only and original maturities of up to ten years. These home equity lines of credit include junior lien mortgages whereby the first lien mortgage is held by a nonaffiliated financial institution.
Consumer installment and home equity loans generally have shorter terms than residential mortgage loans, but generally involve more credit risk than residential mortgage lending because of the type and nature of the collateral. The Corporation experienced decreases in losses on consumer installment and home equity loans in 2015, with net loan losses totaling 19 basis points of average consumer installment and home equity loans during 2015, compared to 32 basis points of average consumer installment and home equity loans in 2014. Consumer installment and home equity loans are spread across many individual borrowers, which minimizes the risk per loan transaction. The Corporation originates consumer installment and home equity loans utilizing a computer-based credit scoring analysis to supplement the underwriting process. Consumer installment and home equity lending collections are dependent on the borrowers' continuing financial stability and are more likely to be affected by adverse personal situations. Collateral values on properties securing consumer installment and home equity loans are negatively impacted by many factors, including the physical condition of the collateral and property values, although losses on consumer installment and home equity loans are often more significantly impacted by the unemployment rate and other economic conditions. The unemployment rate in the State of Michigan was 5.1% at December 31, 2015, compared to 6.3% at December 31, 2014, and slightly higher than the national average of 5.0% at December 31, 2015.

ASSET QUALITY

Nonperforming Assets

Nonperforming assets include nonperforming loans, which consist of originated loans for which the accrual of interest has been discontinued (nonaccrual loans), originated loans that are past due as to principal or interest by 90 days or more and still accruing interest and nonperforming loans that have been modified under troubled debt restructurings (TDRs). Nonperforming assets also include assets obtained through foreclosures and repossessions. The Corporation transfers an originated loan that is 90 days or more past due to nonaccrual status (except for loans that are secured by residential real estate, which are transferred at 120 days past due), unless it believes the loan is both well-secured and in the process of collection. For loans classified as nonaccrual, including those with modifications, the Corporation does not expect to receive all principal and interest payments, and therefore, any payments are recognized as principal reductions when received. Conversely, the Corporation expects to receive all principal and interest payments on loans that meet the definition of nonperforming TDR status. TDRs continue to be reported as nonperforming loans until a six-month payment history of principal and interest payments is sustained in accordance with the terms of the loan modification, at which time the loan is no longer considered a nonperforming asset and the Corporation moves the loan to a performing TDR status.
Nonperforming assets were $93.8 million at December 31, 2015, an increase of $8.4 million, or 9.9%, from $85.4 million at December 31, 2014. The increase in nonperforming assets during 2015 was primarily due to a $10 million commercial loan relationship that was downgraded to nonaccrual status during the year. This commercial loan relationship was the only commercial loan relationship of the Corporation that was in nonperforming status and exceeded $5.0 million at December 31, 2015. Nonperforming assets decreased $6.4 million, or 6.9%, during 2014 from $91.8 million at December 31, 2013. Nonperforming assets represented 1.02%, 1.17% and 1.48% of total assets at December 31, 2015, 2014 and 2013, respectively. The Corporation's nonperforming assets are not concentrated in

any one industry or any one geographical area within Michigan. While the economic climate in Michigan continues to improve, management continues to evaluate and, when appropriate, obtain new appraisals or discount appraised values of existing appraisals to compute net realizable values of nonperforming real estate secured loans and other real estate properties.

Nonperforming assets at December 31, 2015 and 2014 did not include impaired acquired loans totaling $12.8 million and $19.9 million, respectively, even though these loans were not performing in accordance with their 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

loan pools. Acquired loans not performing in accordance with the loan's original contractual terms are included in the Corporation's impaired loan schedule in Note 4 to the consolidated financial statements.

Table 5 provides a five-year history of nonperforming assets, including the composition of nonperforming loans by major loan category.

TABLE 5. NONPERFORMING ASSETS

	December 31,				
	2015	2014	2013	2012	2011
	(Dollars in thousands)				
Nonaccrual loans[1]:					
Commercial	$28,554	$16,418	$18,374	$14,601	$10,726
Commercial real estate	25,163	24,966	28,598	37,660	43,381
Real estate construction	247	162	371	1,217	1,057
Land development	274	225	2,309	4,184	6,190
Residential mortgage	5,557	6,706	8,921	10,164	12,573
Consumer installment	451	500	676	739	1,707
Home equity	1,979	1,667	2,648	2,733	2,760
Total nonaccrual loans	62,225	50,644	61,897	71,298	78,394
Accruing loans contractually past due 90 days or more as to interest or principal payments:					
Commercial	364	170	536	—	1,381
Commercial real estate	254	—	190	87	374
Real estate construction	—	—	—	—	287
Land development	—	—	—	—	—
Residential mortgage	402	557	537	1,503	752
Consumer installment	—	—	—	—	—
Home equity	1,267	1,346	734	769	1,023
Total accruing loans contractually past due 90 days or more as to interest or principal payments	2,287	2,073	1,997	2,359	3,817
Nonperforming TDRs[2]:					
Commercial loan portfolio	16,297	15,271	13,414	13,876	14,675
Consumer loan portfolio	3,071	3,196	4,676	3,321	9,383
Total nonperforming TDRs	19,368	18,467	18,090	17,197	24,058
Total nonperforming loans	83,880	71,184	81,984	90,854	106,269
Other real estate and repossessed assets[3]	9,935	14,205	9,776	18,469	25,484
Total nonperforming assets	$93,815	$85,389	$91,760	$109,323	$131,753
Nonperforming loans as a percent of total loans	1.15 %	1.25 %	1.76 %	2.18 %	2.77 %
Nonperforming assets as a percent of total assets	1.02 %	1.17 %	1.48 %	1.85 %	2.47 %

(1) There was no interest income recognized on nonaccrual loans in 2015 while they were in nonaccrual status. During 2015, the Corporation received and recognized $0.9 million of interest income on these loans while they were in an accruing status. Additional interest income of $3.2 million would have been recorded in 2015 on nonaccrual loans existing at December 31, 2015 had they been current in accordance with their original terms.

(2) Interest income of $3.9 million was recorded in 2015 on performing and nonperforming TDRs. The interest income recognized on residential mortgage TDRs may include accretion of an identified impairment at the time of modification, which is attributable to a temporary reduction in the borrower's interest rate.

(3) Includes property acquired through foreclosure and by acceptance of a deed in lieu of foreclosure and other property held for sale, including properties acquired as a result of acquisition transactions.

The Corporation's nonaccrual loans that meet the definition of a TDR (nonaccrual TDR) totaled $35.9 million, $37.2 million, $37.3 million, $47.5 million and $41.8 million at December 31, 2015, 2014, 2013, 2012 and 2011, respectively. These loans have been modified by providing the borrower a financial concession that is intended to improve the Corporation's probability of collection of the amounts due.

The following schedule summarizes changes in nonaccrual loans (including nonaccrual TDRs) during 2015 and 2014:

	Years Ended December 31,	
	2015	2014
	(In thousands)	
Balance at beginning of period	$50,644	$61,897
Additions during period	47,709	30,595
Principal balances charged off	(11,282)	(12,079)
Transfers to other real estate/repossessed assets	(6,510)	(9,513)
Return to accrual status	(4,004)	(8,631)
Payments received	(14,332)	(11,625)
Balance at end of period	$62,225	$50,644

Nonperforming Loans

The following schedule provides the composition of nonperforming loans, by major loan category, as of December 31, 2015 and 2014.

	December 31,			
	2015		2014	
	Amount	Percent of Total	Amount	Percent of Total
	(Dollars in thousands)			
Commercial loan portfolio:				
Commercial	$33,567	40 %	$21,121	30 %
Commercial real estate	36,602	44	35,654	50
Real estate construction	401	—	162	—
Land development	583	1	275	1
Subtotal — commercial loan portfolio	71,153	85	57,212	81
Consumer loan portfolio:				
Residential mortgage	9,030	10	10,459	14
Consumer installment	451	1	500	1
Home equity	3,246	4	3,013	4
Subtotal — consumer loan portfolio	12,727	15	13,972	19
Total nonperforming loans	$83,880	100 %	$71,184	100 %

Total nonperforming loans were $83.9 million at December 31, 2015, an increase of $12.7 million, or 17.8%, compared to $71.2 million at December 31, 2014. The increase in nonperforming loans during 2015 was primarily due to a $10 million commercial loan relationship being downgraded to nonaccrual status during the year. As of December 31, 2015, the borrower, which primarily operates as a tier 1 and tier 2 supplier in the automotive manufacturing industry, has made all principal and interest payments under a forbearance agreement with the Corporation. Based on a collateral review for this loan relationship, the Corporation established a specific impairment reserve of $2.3 million for this loan relationship as of December 31, 2015. The Corporation's nonperforming loans in the commercial loan portfolio were $71.2 million at December 31, 2015, an increase of $14.0 million, or 24%, from $57.2 million at December 31, 2014. Nonperforming loans in the commercial loan portfolio comprised 85% of total nonperforming loans at December 31, 2015, compared to 81% at December 31, 2014. The Corporation's nonperforming loans in the consumer loan portfolio were $12.7 million at December 31, 2015, a decrease of $1.3 million, or 8.9%, from $14.0 million at December 31, 2014.

Nonperforming Loans — Commercial Loan Portfolio

The following schedule presents information related to stratification of nonperforming loans in the commercial loan portfolio by dollar amount at December 31, 2015 and 2014.

	December 31, 2015		2014	
	Number of Borrowers	Amount	Number of Borrowers	Amount
	(Dollars in thousands)			
$5,000,000 or more	1	$10,009	2	$11,418
$2,500,000 - $4,999,999	3	11,622	2	6,298
$1,000,000 - $2,499,999	13	23,336	5	7,157
$500,000 - $999,999	12	8,543	22	14,892
$250,000 - $499,999	19	6,725	17	5,466
Under $250,000	136	10,918	167	11,981
Total	184	$71,153	215	$57,212

Nonperforming commercial loans were $33.6 million at December 31, 2015, an increase of $12.5 million, or 59%, from $21.1 million at December 31, 2014. The increase in nonperforming commercial loans during 2015 was primarily attributable to the commercial loan relationship previously discussed. Of the $10.0 million of nonperforming loans in this customer relationship at December 31, 2015, $8.5 million were nonperforming commercial loans and $1.5 million were nonperforming commercial real estate loans. Nonperforming commercial loans comprised 1.8% of total commercial loans at December 31, 2015, compared to 1.6% at December 31, 2014. At December 31, 2015, approximately 50% of the Corporation's nonperforming commercial loans were in the manufacturing industry, with the largest concentration of these related to the customer loan relationship previously discussed. Approximately 25% of the Corporation's nonperforming commercial loans at December 31, 2015 were secured by income-producing farmland, with the largest concentration of these nonperforming commercial loans with one customer relationship totaling $3.3 million that was secured by income-producing farmland and other assets and has been in nonperforming status for over one year. The Corporation charged off $1.6 million of loans in this relationship during the fourth quarter of 2015. Accordingly, the Corporation did not require a specific impairment reserve on this loan relationship at December 31, 2015.

Nonperforming commercial real estate loans were $36.6 million at December 31, 2015, an increase of $0.9 million, or 2.7%, from $35.7 million at December 31, 2014. Nonperforming commercial real estate loans comprised 1.7% of total commercial real estate loans at December 31, 2015, compared to 2.3% at December 31, 2014. Nonperforming commercial real estate loans secured by owner occupied real estate, non-owner occupied real estate and vacant land totaled $20.9 million, $8.1 million and $7.6 million, respectively, at December 31, 2015, and comprised 2.6%, 1.4% and 18.3%, respectively, of total owner occupied real estate, non-owner occupied real estate and vacant land loans included in the Corporation's originated commercial real estate loans at December 31, 2015. At December 31, 2015, the Corporation's nonperforming commercial real estate loans were comprised of a diverse mix of commercial lines of business and were also geographically disbursed throughout the Corporation's market areas. The largest concentration of nonperforming commercial real estate loans at December 31, 2015 was one customer relationship totaling $4.7 million that was primarily secured by vacant land and has been in nonperforming status for over five years. This same customer relationship had nonperforming land development loans of $0.1 million and nonperforming residential mortgage loans of $0.4 million. At December 31, 2015, the loans in this relationship were believed to be adequately secured and the Corporation did not require a specific impairment reserve on them at that date.

Nonperforming real estate construction loans were $0.4 million at December 31, 2015, compared to $0.2 million at December 31, 2014. Nonperforming real estate construction loans comprised 0.2% of total real estate construction loans at December 31, 2015, compared to 0.1% at December 31, 2014.

Nonperforming land development loans were $0.6 million at December 31, 2015, compared to $0.3 million at December 31, 2014. Nonperforming land development loans comprised 2.7% of total land development loans at December 31, 2015, compared to 1.5% at December 31, 2014. At December 31, 2015, nonperforming land development loans were secured primarily by residential real estate improved lots and housing units.

At December 31, 2015, the Corporation had nonperforming loans in the commercial loan portfolio of $2.1 million that were secured by real estate and were in various stages of foreclosure, compared to $2.2 million at December 31, 2014.

Nonperforming Loans — Consumer Loan Portfolio

Nonperforming residential mortgage loans were $9.0 million at December 31, 2015, a decrease of $1.5 million, or 14%, from $10.5 million at December 31, 2014. Nonperforming residential mortgage loans comprised 0.6% of total residential mortgage loans at December 31, 2015, compared to 0.9% of total residential mortgage loans at December 31, 2014. At December 31, 2015, a total of $2.9 million of nonperforming residential mortgage loans were in various stages of foreclosure, compared to $2.3 million at December 31, 2014.

Nonperforming consumer installment loans were $0.5 million at both December 31, 2015 and December 31, 2014 and comprised less than 0.1% of total consumer installment loans at those dates.

Nonperforming home equity loans were $3.2 million at December 31, 2015, an increase of $0.2 million, or 7.7%, from $3.0 million at December 31, 2014. Nonperforming home equity loans comprised 0.5% of total home equity loans at both December 31, 2015 and December 31, 2014.

Troubled Debt Restructurings (TDRs)

The generally unfavorable economic climate that had existed in Michigan during the most recent economic downturn resulted in a large number of both business and consumer customers experiencing cash flow issues making it difficult to maintain their loan balances in a performing status. The Corporation determined that it was probable that certain customers who were past due on their loans, if provided a modification of their loans by reducing their monthly payments, would be able to bring their loan relationships to a performing status. The Corporation believes loan modifications will potentially result in a lower level of loan losses and loan collection costs than if the Corporation proceeded immediately through the foreclosure process with these borrowers. The loan modifications involve granting concessions to borrowers who are experiencing financial difficulty and, therefore, these loans meet the criteria to be considered TDRs.

The Corporation's performing and nonperforming TDRs continue to accrue interest at the loan's original interest rate as the Corporation expects to collect the remaining principal balance on the loan. A TDR is reported as a nonperforming loan (nonperforming TDR) until a six-month payment history of principal and interest payments is sustained in accordance with the loan modification, at which time the Corporation moves the loan to a performing status (performing TDR). If a performing TDR becomes contractually past due more than 30 days, it is transferred to a nonperforming status. Accordingly, all of the Corporation's performing TDRs at December 31, 2015 were current or less than 30 days past due. The Corporation's nonaccrual loans that meet the definition of a TDR do not accrue interest as the Corporation does not expect to collect the full amount of principal and interest owed from the borrower on these loans.

The following summarizes the Corporation's TDRs at December 31, 2015 and 2014:

	Performing TDRs	Nonperforming TDRs			Nonaccrual TDRs	Total
		Current	Past Due 31-90 Days	Sub-Total		
December 31, 2015	(In thousands)					
Commercial loan portfolio	$29,844	$15,726	$571	$16,297	$32,682	$78,823
Consumer loan portfolio	17,966	2,719	352	3,071	3,251	24,288
Total TDRs	$47,810	$18,445	$923	$19,368	$35,933	$103,111
December 31, 2014						
Commercial loan portfolio	$29,179	$14,608	$663	$15,271	$32,597	$77,047
Consumer loan portfolio	16,485	2,652	544	3,196	4,594	24,275
Total TDRs	$45,664	$17,260	$1,207	$18,467	$37,191	$101,322

The Corporation's performing and nonperforming TDRs in the commercial loan portfolio generally consist of loans where the Corporation has allowed borrowers to either (i) temporarily defer scheduled principal payments and make interest-only payments for a short period of time (generally six months to one year) at the stated interest rate of the original loan agreement, (ii) lower payments due to a modification of the loan's original contractual terms, or (iii) enter into moderate extensions of the loan's original contractual maturity date. These TDRs are individually evaluated for impairment. Based on this evaluation, the Corporation does not expect to incur a loss on these TDRs based on its

assessment of the borrowers' expected cash flows, as the pre- and post-modification effective yields are approximately the same for these loans. Accordingly, no additional provision for loan losses has been recognized related to these TDRs. Nonperforming TDRs that have made at least six consecutive months of principal and interest payments under a formal modification agreement are classified by the Corporation as performing TDRs. If a TDR in the commercial loan portfolio becomes 90 days past due as to principal or interest, or if it becomes probable that any remaining

principal and interest payments due on the loan will not be collected in accordance with the modified contractual terms, the loan is transferred to nonaccrual TDR status.
Due to the borrowers' sustained repayment histories, the Corporation had performing TDRs in the commercial loan portfolio of $29.8 million at December 31, 2015, compared to $29.2 million at December 31, 2014. The Corporation also had nonperforming TDRs in the commercial loan portfolio of $16.3 million at December 31, 2015, compared to $15.3 million at December 31, 2014. The Corporation's nonperforming TDRs in the commercial loan portfolio are categorized as a risk grade 7 (substandard - accrual) under the Corporation's risk rating system, which is further described in Note 4 to the consolidated financial statements. The weighted average contractual interest rate of the Corporation's performing and nonperforming TDRs in the commercial loan portfolio was 5.57% at December 31, 2015, compared to 5.46% at December 31, 2014. At December 31, 2015, the Corporation had $32.7 million of nonaccrual TDRs in the commercial loan portfolio, compared to $32.6 million at December 31, 2014.
A summary of changes in the Corporation's performing and nonperforming TDRs in the commercial loan portfolio follows:

	Years Ended December 31,					
	2015			2014		
	Performing	Nonperforming	Total	Performing	Nonperforming	Total
	(In thousands)					
Balance at beginning of period	$29,179	$ 15,271	$44,450	$26,839	$ 13,414	$40,253
Additions for modifications	—	9,292	9,292	—	7,707	7,707
Transfers to performing TDR status	8,515	(8,515)	—	5,918	(5,918)	—
Transfers to nonperforming TDR status	(3,813)	3,813	—	(1,212)	1,212	—
Principal payments and pay-offs	(2,948)	(2,187)	(5,135)	(3,485)	(1,633)	(5,118)
Transfers from nonaccrual status	617	243	860	2,191	2,291	4,482
Transfers to nonaccrual status	(1,706)	(1,620)	(3,326)	(1,072)	(1,802)	(2,874)
Balance at end of period	$29,844	$ 16,297	$46,141	$29,179	$ 15,271	$44,450

The Corporation's TDRs in the consumer loan portfolio generally consist of loans where the Corporation has reduced a borrower's monthly payments by decreasing the interest rate charged on the loan (generally to a range of 3% to 5%) for a specified period of time (generally 24 months). Once the borrowers have made at least six consecutive months of principal and interest payments under a formal modification agreement, they are classified as performing TDRs. These loans are moved to nonaccrual TDR status if the loan becomes 90 days past due as to principal or interest, or sooner if conditions warrant.
The Corporation had performing TDRs in the consumer loan portfolio of $18.0 million at December 31, 2015, compared to $16.5 million at December 31, 2014. The Corporation also had nonperforming TDRs in the consumer loan portfolio of $3.1 million at December 31, 2015, compared to $3.2 million at December 31, 2014. The weighted average contractual interest rate on the Corporation's performing and nonperforming TDRs in the consumer loan portfolio was 4.66% at both December 31, 2015 and December 31, 2014. At December 31, 2015, the Corporation had $3.3 million of nonaccrual TDRs in the consumer loan portfolio, compared to $4.6 million at December 31, 2014.
The Corporation's cumulative redefault rate as of December 31, 2015 on its performing and nonperforming TDRs, which represents the percentage of these TDRs that transferred to nonaccrual status since the Corporation began such modifications in 2009, was 18% for performing and nonperforming TDRs in the commercial loan portfolio and 19% for performing and nonperforming TDRs in the consumer loan portfolio. The Corporation's cumulative redefault rate does not include loans that have been modified while in nonaccrual status that remain in nonaccrual status as the Corporation does not expect to collect the full amount of principal and interest owed from the borrower on these loans.

Other Real Estate and Repossessed Assets

Other real estate and repossessed assets are components of nonperforming assets. These include other real estate (ORE), comprised of residential and commercial real estate and land development properties acquired through foreclosure or by acceptance of a deed in lieu of foreclosure, and repossessed assets, comprised of other personal and commercial assets. ORE totaled $9.7 million at December 31, 2015, a decrease of $4.3 million, or 30%, from $14.0 million at December 31, 2014. The decrease in ORE during 2015 was primarily related to the sales of ORE properties. Repossessed assets totaled $0.2 million at December 31, 2015, compared to $0.3 million at December 31, 2014.

The following schedule provides the composition of ORE at December 31, 2015 and 2014:

	December 31,	
	2015	2014
	(In thousands)	
Composition of ORE:		
Vacant land	$3,036	$5,285
Commercial real estate properties	4,583	6,419
Residential real estate properties	2,097	2,219
Residential land development properties	—	30
Total ORE	$9,716	$13,953

The following schedule summarizes ORE activity during 2015 and 2014:

	Years Ended December 31,	
	2015	2014
	(In thousands)	
Balance at beginning of year	$13,953	$9,518
Additions attributable to foreclosures	6,957	8,986
Additions attributable to acquisitions	440	3,721
Write-downs to fair value	(1,421)	(648)
Dispositions	(10,213)	(7,624)
Balance at end of year	$9,716	$13,953

The Corporation's ORE is carried at the lower of cost or fair value less estimated cost to sell. The historically large inventory of real estate properties for sale across the State of Michigan has resulted in an increase in the Corporation's carrying time and cost of holding ORE. Consequently, the Corporation had $7.0 million in ORE at December 31, 2015 that had been held in excess of one year, of which $2.1 million had been held in excess of three years.The Corporation had $5.0 million of nonperforming loans that were in the process of foreclosure at December 31, 2015. All of the Corporation's ORE properties have been written down to fair value through a charge-off against the allowance for loan losses at the time the loan was transferred to ORE, through a subsequent write-down, recorded as an operating expense, to recognize a further market value decline of the property after the initial transfer date, or due to recording at fair value as a result of acquisition transactions. Accordingly, at December 31, 2015, the carrying value of ORE of $9.7 million was reflective of $18.9 million in charge-offs, write-downs and acquisition-related fair value adjustments and represented 34% of the contractual loan balance remaining at the time these loans were classified as nonperforming.

During 2015, the Corporation sold 337 ORE properties for net proceeds of $14.3 million. On an average basis, the net proceeds from these sales represented 140% of the carrying value of the property at the time of sale, with the net proceeds representing 66% of the remaining contractual loan balance at the time these loans were classified as nonperforming.

Impaired Loans

A loan is considered impaired when management determines it is probable that payment of principal and interest due will not be paid according to the original contractual terms of the loan agreement. 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. A portion of the allowance for loan losses is specifically allocated to impaired loans. The process of measuring impaired loans and the allocation of the allowance for loan losses requires judgment and estimation. The eventual outcome may differ from amounts estimated.

Impaired loans include nonaccrual loans (including nonaccrual TDRs), performing and nonperforming TDRs and acquired loans that were not performing in accordance with their original contractual terms. Impaired loans totaled $142.2 million and $134.7 million at December 31, 2015 and 2014, respectively. The increase in impaired loans during 2015 was due to an increase in nonaccrual loans largely resulting from the $10 million commercial loan relationship that was downgraded to nonaccrual status during the year, as previously discussed.

A summary of impaired loans at December 31, 2015 and 2014 follows:

	December 31,	
	2015	2014
Impaired loans - commercial loan portfolio:	(In thousands)	
Originated commercial loan portfolio:		
Nonaccrual loans	$54,238	$41,771
Nonperforming TDRs	16,297	15,271
Performing TDRs	29,844	29,179
Subtotal	100,379	86,221
Acquired commercial loan portfolio	12,795	19,892
Total impaired loans - commercial loan portfolio	113,174	106,113
Impaired loans - consumer loan portfolio:		
Nonaccrual loans	7,987	8,873
Nonperforming TDRs	3,071	3,196
Performing TDRs	17,966	16,485
Total impaired loans - consumer loan portfolio	29,024	28,554
Total impaired loans	$142,198	$134,667

The following schedule summarizes impaired loans to commercial borrowers and the related valuation allowance at December 31, 2015 and 2014 and partial loan charge-offs (confirmed losses) taken on these impaired loans:

	Amount	Valuation Allowance	Confirmed Losses	Cumulative Inherent Loss Percentage	
	(Dollars in thousands)				
December 31, 2015					
Impaired loans — originated commercial loan portfolio:					
With valuation allowance and no charge-offs	$20,635	$6,019	$—	29	%
With valuation allowance and charge-offs	2,711	178	768	27	
With charge-offs and no valuation allowance	18,718	—	16,373	47	
Without valuation allowance or charge-offs	58,315	—	—	—	
Total	100,379	$6,197	$17,141	20	%
Impaired acquired loans	12,795				
Total impaired loans to commercial borrowers	$113,174				
December 31, 2014					
Impaired loans — originated commercial loan portfolio:					
With valuation allowance and no charge-offs	$2,700	$860	$—	32	%
With valuation allowance and charge-offs	853	143	414	44	

With charge-offs and no valuation allowance	17,770	—	14,974	46	
Without valuation allowance or charge-offs	64,898	—	—	—	
Total	86,221	$1,003	$15,388	16	%
Impaired acquired loans	19,892				
Total impaired loans to commercial borrowers	$106,113				

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After analyzing the various components of the customer relationships and evaluating the underlying collateral of impaired loans, the Corporation determined that impaired loans in the commercial loan portfolio totaling $23.3 million at December 31, 2015 required a specific allocation of the allowance for loan losses (valuation allowance) of $6.2 million, compared to $3.6 million of impaired loans in the commercial loan portfolio at December 31, 2014 which required a valuation allowance of $1.0 million.The increase in impaired loans in the commercial loan portfolio that required a valuation allowance during 2015 was due to seven commercial loan relationships totaling $22.1 million at December 31, 2015 being classified by the Corporation as nonperforming during the year and requiring a valuation allowance of $5.7 million as of that date. The largest of these commercial loan relationships was the $10.0 million commercial loan relationship to a borrower that primarily operates as a tier 1 and tier 2 supplier in the automotive industry, as previously discussed, that required a valuation allowance of $2.3 million at December 31, 2015. Confirmed losses represent partial loan charge-offs on impaired loans due primarily to the receipt of a recent third-party property appraisal indicating the value of the collateral securing the loan was below the loan balance and management determined that full collection of the loan balance is not likely. The Corporation's performing and nonperforming TDRs in the commercial loan portfolio did not require a valuation allowance as the Corporation expected to collect the full principal and interest owed on each of these loans in accordance with their modified terms. The Corporation generally does not recognize a valuation allowance for impaired loans in the consumer loan portfolio as these loans are comprised of smaller-balance homogeneous loans that are collectively evaluated for impairment. However, the Corporation had a valuation allowance attributable to TDRs in the consumer loan portfolio of $0.2 million at December 31, 2015, compared to $0.3 million at December 31, 2014, related to the reduction in the present value of expected future cash flows for these loans discounted at their original effective interest rates.

Impaired loans included acquired loans totaling $12.8 million and $19.9 million at December 31, 2015 and 2014, respectively, that were not performing in accordance with the original contractual terms of the loans. These loans did not require a valuation allowance as they are recorded in pools at their net realizable value based on the principal and interest the Corporation expects to collect on these loan pools. These loans are not included in the Corporation's nonperforming loans.

ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses (allowance) provides for probable losses in the originated loan portfolio that have been identified with specific customer relationships and for probable losses believed to be inherent in the remainder of the originated loan portfolio but that have not been specifically identified. The allowance is comprised of specific valuation allowances (assessed for originated loans that have known credit weaknesses), pooled allowances based on assigned risk ratings and historical loan loss experience for each loan type, and a qualitative allowance based on environmental factors that take into consideration risks inherent in the originated loan portfolio that differ from historical loan loss experience. Management evaluates the allowance on a quarterly basis in an effort to ensure the level is adequate to absorb probable losses inherent in the loan portfolio. This evaluation process is inherently subjective as it requires estimates that may be susceptible to significant change and has the potential to affect net income materially. The Corporation's methodology for measuring the adequacy of the allowance is comprised of several key elements, which include a review of the loan portfolio, both individually and by category, and consideration of changes in the mix and volume of the loan portfolio, actual delinquency and loan loss experience, review of collateral values, the size and financial condition of the borrowers, industry and geographical exposures within the portfolio, economic conditions and employment levels of the Corporation's local markets and other factors affecting business sectors. Management believes that the allowance is currently maintained at an appropriate level, considering the inherent risk in the loan portfolio. Future significant adjustments to the allowance may be necessary due to changes in economic conditions, delinquencies or the level of loan losses incurred.

The following schedule summarizes information related to the Corporation's allowance for loan losses:

	December 31,				
	2015	2014	2013	2012	2011
	(Dollars in thousands)				
Allowance for loan losses:					
Originated loans	$73,328	$75,183	$78,572	$83,991	$86,733
Acquired loans	—	500	500	500	1,600

Total	$73,328		$75,683		$79,072		$84,491		$88,333	
Nonperforming loans	$83,880		$71,184		$81,984		$90,854		$106,269	
Allowance for originated loans as a percent of:										
Total originated loans	1.26	%	1.51	%	1.81	%	2.22	%	2.60	%
Nonperforming loans	87	%	106	%	96	%	92	%	82	%
Nonperforming loans, less impaired originated loans for which the expected loss has been charged-off	113	%	141	%	135	%	132	%	107	%

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A summary of the activity in the allowance for loan losses for the five years ended December 31, 2015 is included in Table 6.

TABLE 6. ANALYSIS OF ALLOWANCE FOR LOAN LOSSES

	Years Ended December 31,				
	2015	2014	2013	2012	2011
	(Dollars in thousands)				
Allowance for loan losses - beginning of year	$75,683	$79,072	$84,491	$88,333	$89,530
Provision for loan losses	6,500	6,100	11,000	18,500	26,000
Loan charge-offs:					
Commercial	(3,551)	(3,169)	(4,104)	(6,427)	(6,950)
Commercial real estate	(2,693)	(2,929)	(7,363)	(7,930)	(13,132)
Real estate construction	(129)	(113)	(37)	(70)	(31)
Land development	(12)	(188)	(776)	(1,296)	(458)
Residential mortgage	(2,427)	(2,277)	(2,878)	(5,438)	(4,971)
Consumer installment	(4,182)	(4,194)	(3,993)	(4,605)	(4,308)
Home equity	(507)	(1,359)	(1,995)	(1,670)	(2,258)
Total loan charge-offs	(13,501)	(14,229)	(21,146)	(27,436)	(32,108)
Recoveries of loans previously charged off:					
Commercial	970	900	1,783	744	1,676
Commercial real estate	1,218	873	1,086	2,246	856
Real estate construction	—	—	—	—	3
Land development	—	836	23	2	42
Residential mortgage	515	651	346	562	849
Consumer installment	1,391	1,279	1,350	1,396	1,156
Home equity	552	201	139	144	329
Total loan recoveries	4,646	4,740	4,727	5,094	4,911
Net loan charge-offs	(8,855)	(9,489)	(16,419)	(22,342)	(27,197)
Allowance for loan losses - end of year	$73,328	$75,683	$79,072	$84,491	$88,333
Net loan charge-offs during the year as a percentage of average loans outstanding during the year	0.13 %	0.19 %	0.38 %	0.57 %	0.73 %

The allowance of the acquired loan portfolio was not carried over on the date of acquisition. The acquired loans were recorded at their estimated fair values at the date of acquisition, with the estimated fair values including a component for expected credit losses. Acquired loans are subsequently evaluated for further credit deterioration in loan pools, which consist of loans with similar credit risk characteristics. If an acquired loan pool experiences a decrease in expected cash flows, as compared to those expected at the acquisition date, a portion of the allowance is allocated to acquired loans. There was no allowance needed for the acquired loan portfolio at December 31, 2015. At December 31, 2014, the allowance on the acquired loan portfolio was $0.5 million and was related to two consumer loan pools from the OAK transaction performing slightly below original expectations.

The allocation of the allowance for loan losses in Table 7 is based upon ranges of estimates and is not intended to imply either limitations on the usage of the allowance or exactness of the specific amounts. The entire allowance attributable to originated loans is available to absorb future loan losses within the originated loan portfolio without regard to the categories in which the loan losses are classified. The allocation of the allowance is based upon a combination of factors, including historical loss factors, credit-risk grading, past-due experiences, and other factors, as discussed above.

TABLE 7. ALLOCATION OF THE ALLOWANCE FOR LOAN LOSSES

	December 31,														
	2015			2014			2013			2012			2011		
	Allowance Amount	Percent of Originated Loans in Each Category to Total Loans		Allowance Amount	Percent of Originated Loans in Each Category to Total Loans		Allowance Amount	Percent of Originated Loans in Each Category to Total Loans		Allowance Amount	Percent of Originated Loans in Each Category to Total Loans		Allowance Amount	Percent of Originated Loans in Each Category to Total Loans	
	(Dollars in millions)														
Originated loans:															
Commercial	$21.9	26	%	$18.0	25	%	$18.2	25	%	$18.8	24	%	$20.7	23	%
Commercial real estate	22.8	25		23.6	24		23.8	25		28.4	25		30.0	24	
Real estate construction	2.2	3		2.3	3		1.6	2		1.0	1		1.3	2	
Land development	0.3	—		0.3	—		0.9	—		1.8	1		2.4	1	
Residential mortgage	14.3	21		11.3	20		12.8	22		13.3	23		13.0	25	
Consumer installment	5.7	15		9.4	17		8.7	15		8.3	14		9.8	14	
Home equity	6.1	10		7.6	11		8.1	11		7.2	12		6.0	11	
Unallocated	—	—		2.7	—		4.5	—		5.2	—		3.5	—	
Subtotal — originated loans	73.3	100	%	75.2	100	%	78.6	100	%	84.0	100	%	86.7	100	%
Acquired loans	—			0.5			0.5			0.5			1.6		
Total	$73.3			$75.7			$79.1			$84.5			$88.3		

DEPOSITS

Total deposits were $7.46 billion at December 31, 2015, an increase of $1.38 billion, or 23%, from total deposits at December 31, 2014 of $6.08 billion. The increase in total deposits during 2015 was attributable to organic growth in customer deposits of $382 million, or 6.3%, and deposits acquired in the Lake Michigan and Monarch acquisitions of $1.07 billion, including interest- and noninterest-bearing demand deposits and savings deposits totaling $589 million, customer certificates of deposit of $202 million, and brokered deposits of $278 million. The organic growth in customer deposits during 2015 included increases in interest- and noninterest-bearing demand deposits and savings deposits of $479 million that were partially offset by a decline in certificate of deposit accounts of $97 million. Interest- and noninterest-bearing demand deposit and savings accounts were $5.81 billion at December 31, 2015, compared to $4.74 billion at December 31, 2014. Certificates of deposit were $1.65 billion at December 31, 2015, compared to $1.34 billion at December 31, 2014. Total deposits increased $957 million during 2014 due primarily to $794 million of deposits acquired in the Northwestern acquisition.

It is the Corporation's strategy to develop customer relationships that will drive core deposit growth and stability. The Corporation's competitive position within many of its market areas has historically limited its ability to materially increase core deposits without adversely impacting the weighted average cost of the deposit portfolio. While competition for core deposits remained strong throughout the Corporation's markets during 2015 and 2014, the Corporation's efforts to expand its deposit relationships with existing customers, the Corporation's financial strength and a general trend in customers holding more liquid assets have resulted in the Corporation continuing to experience increases in customer deposits.

The growth of the Corporation's deposits can be impacted by competition from other investment products, such as mutual funds and various annuity products. These investment products are sold by a wide spectrum of organizations, such as brokerage and insurance companies, as well as by financial institutions. In response to the competition for

other investment products, Chemical Bank, through its Chemical Financial Advisors program, offers a wide array of mutual funds, annuity products and marketable securities through an alliance with an independent, registered broker/dealer. The Corporation also competes with credit unions in most of its markets. These institutions are challenging competitors, as credit unions are exempt from federal income taxes, allowing them to potentially offer higher deposit rates.

At December 31, 2015, the Corporation's time deposits, which consist of certificates of deposit, totaled $1.65 billion, of which $904 million have stated maturities in 2016, although the Corporation expects the majority of these to be renewed by customers or transferred to another deposit product offered by the Corporation. The following schedule summarizes the scheduled maturities of the Corporation's time deposits as of December 31, 2015:

Maturity Schedule	Amount	Weighted Average Interest Rate	
	(Dollars in thousands)		
2016 maturities:			
First quarter	$377,751	0.40	%
Second quarter	219,714	0.58	
Third quarter	156,602	0.64	
Fourth quarter	150,213	0.67	
Total 2016 maturities	904,280	0.58	
2017 maturities	394,800	1.00	
2018 maturities	139,151	1.14	
2019 maturities	88,073	1.46	
2020 maturities and beyond	121,108	1.66	
Total time deposits	$1,647,412	0.83	%

Included in the above maturity schedule are brokered deposits that were acquired as part of the Lake Michigan acquisition totaling $208 million as of December 31, 2015. The Corporation does not intend to renew these brokered deposits as they mature. These brokered deposits are scheduled to mature as follows: $64 million in 2016; $68 million in 2017; $40 million in 2018; $24 million in 2019; and $12 million in 2020 and beyond.

Table 8 presents the maturity distribution of time deposits of $100,000 or more at December 31, 2015. Time deposits of $100,000 or more totaled $702 million and represented 9.4% of total deposits at December 31, 2015.

TABLE 8. MATURITY DISTRIBUTION OF TIME DEPOSITS OF $100,000 OR MORE

	December 31, 2015		
	Amount	Percent	
	(Dollars in thousands)		
Maturity:			
Within 3 months	$187,221	26.7	%
After 3 but within 6 months	118,015	16.8	
After 6 but within 12 months	126,513	18.0	
After 12 months	270,081	38.5	
Total	$701,830	100.0	%

BORROWED FUNDS

Borrowed funds consist of short-term borrowings and other borrowings. Short-term borrowings, which generally have an original term to maturity of 30 days or less, consist of securities sold under agreements to repurchase with customers, short-term Federal Home Loan Bank (FHLB) advances, and federal funds purchased. Other borrowings consist of securities sold under agreements to repurchase with an unaffiliated third-party financial institution, long-term FHLB advances, a non-revolving line-of-credit, and subordinated debentures.

Short-term Borrowings

Short-term borrowings were $397.2 million, $389.5 million and $327.4 million at December 31, 2015, 2014 and 2013, respectively. Short-term borrowings increased $7.7 million, or 2.0%, during 2015 and $62.0 million, or 19%, during 2014. The increase in short-term borrowings during 2014 was primarily due to federal funds purchased and short-term FHLB advances utilized by the Corporation to fund short-term liquidity needs resulting from loan growth.

A summary of short-term borrowings follows:

	December 31,		
	2015	2014	2013
	(In thousands)		
Short-term borrowings:			
Securities sold under agreements to repurchase with customers	$297,199	$304,467	$327,428
Short-term FHLB advances	100,000		