MUTUALFIRST FINANCIAL INC
Form 10-Q
August 09, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended **June 30, 2016**
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 000-27905

MutualFirst Financial, Inc.
(Exact name of registrant as specified in its charter)

Maryland	**35-2085640**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
110 E. Charles Street, Muncie, Indiana	**47305-2419**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **(765) 747-2800**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $.01 per share	**Nasdaq Global Market**

Securities Registered Pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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

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

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 definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Act.

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

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

Indicate the number of shares outstanding of each of the registrant's classes of common stock as of the latest practicable date. As of August 8, 2016, there were 7,324,233 shares of the registrant's common stock outstanding.

MutualFirst Financial, Inc.

Form 10-Q Quarterly Report for the Period Ended June 30, 2016

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MutualFirst Financial, Inc.

Consolidated Condensed Balance Sheets

(In Thousands, Except Share and Per Share Data)

	June 30, 2016 (Unaudited)	December 31, 2015
Assets		
Cash and due from banks	$ 8,930	$ 8,610
Interest-bearing demand deposits	24,593	12,305
Cash and cash equivalents	33,523	20,915
Interest-bearing time deposits	980	-
Investment securities available for sale (carried at fair value)	251,326	261,138
Loans held for sale	8,587	5,991
Loans, net of allowance for loan losses of $12,604 and $12,641, at June 30, 2016 and December 31, 2015, respectively	1,094,764	1,068,204
Premises and equipment, net	31,875	31,048
Federal Home Loan Bank stock	10,640	10,482
Deferred tax asset, net	10,196	12,084
Cash value of life insurance	51,024	51,209
Goodwill	1,800	1,800
Other real estate owned and repossessed assets	1,734	2,456
Other assets	13,996	12,938
Total assets	$ 1,510,445	$ 1,478,265
Liabilities and Stockholders' Equity		
Liabilities		
Deposits		
Noninterest-bearing	$ 182,477	$ 179,542
Interest-bearing	914,024	911,840
Total deposits	1,096,501	1,091,382
Federal Home Loan Bank advances	243,817	225,617
Other borrowings	9,100	9,458
Other liabilities	19,434	14,783
Total liabilities	1,368,852	1,341,240
Commitments and Contingencies		
Stockholders' Equity		
Common stock, $.01 par value		
Authorized - 20,000,000 shares		
Issued and outstanding - 7,324,233 and 7,422,061 shares at June 30, 2016 and December 31, 2015, respectively	73	74

Additional paid-in capital	74,164	77,363
Retained earnings	62,527	58,098
Accumulated other comprehensive income	4,829	1,490
Total stockholders' equity	141,593	137,025
Total liabilities and stockholders' equity	$ 1,510,445	$ 1,478,265

See notes to consolidated condensed financial statements

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MutualFirst Financial, Inc.

Consolidated Condensed Statements of Income

(Unaudited)

(In Thousands, Except Share and Per Share Data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Interest and Dividend Income				
Loans receivable	$ 11,515	$ 10,919	$ 22,735	$ 21,784
Investment securities	1,610	1,692	3,299	3,362
Federal Home Loan Bank stock	111	118	216	259
Deposits with financial institutions	22	2	42	9
Total interest and dividend income	13,258	12,731	26,292	25,414
Interest Expense				
Deposits	1,283	1,334	2,568	2,706
Federal Home Loan Bank advances	897	724	1,792	1,390
Other	91	133	183	261
Total interest expense	2,271	2,191	4,543	4,357
Net Interest Income	10,987	10,540	21,749	21,057
Provision for loan losses	150	-	350	-
Net Interest Income After Provision for Loan Losses	10,837	10,540	21,399	21,057
Non-interest Income				
Service fee income	1,528	1,464	2,902	2,822
Net realized gain on sales of available for sale securities	652	126	770	366
Commissions	1,404	1,142	2,503	2,263
Net gains on sales of loans	1,407	1,121	2,347	2,027
Net servicing fees	78	70	148	138
Increase in cash value of life insurance	306	313	590	601
Gain (loss) on sale of other real estate and repossessed assets	(188)	32	(217)	(50)
Other income	706	98	847	216
Total non-interest income	5,893	4,366	9,890	8,383
Non-interest Expenses				
Salaries and employee benefits	6,660	6,084	13,151	12,614
Net occupancy expenses	601	515	1,247	1,118
Equipment expenses	484	410	971	863
Data processing fees	492	428	981	872

ATM and debit card expenses	356	347	736	682
Deposit insurance	225	212	459	444
Professional fees	380	383	850	913
Advertising and promotion	269	378	696	711
Software subscriptions and maintenance	549	433	1,029	860
Other real estate and repossessed assets	14	87	86	214
Other expenses	1,210	1,096	2,450	2,100
Total non-interest expenses	11,240	10,373	22,656	21,391
Income Before Income Tax	5,490	4,533	8,633	8,049
Income tax expense	1,333	1,315	2,111	2,351
Net Income	$ 4,157	$ 3,218	$ 6,522	$ 5,698
Earnings Per Common Share				
Basic	$ 0.56	$ 0.44	$ 0.87	$ 0.78
Diluted	$ 0.55	$ 0.43	$ 0.86	$ 0.76
Dividends Per Common Share	$ 0.14	$ 0.12	$ 0.28	$ 0.24

See notes to consolidated condensed financial statements

MutualFirst Financial, Inc.

Consolidated Condensed Statements of Comprehensive Income

(Unaudited)

(In Thousands)

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Net Income	$ 4,157	$ 3,218	$ 6,522	$ 5,698
Other Comprehensive Income (Loss)				
Net unrealized holding gain (loss) on securities available for sale	2,452	(3,179)	5,866	(2,139)
Reclassification adjustment for realized gains included in net income	(652)	(126)	(770)	(366)
Net unrealized gain (loss) on derivative used for cash flow hedges	(3)	42	(28)	57
	1,797	(3,263)	5,068	(2,448)
Income tax (expense) benefit related to other comprehensive income	(610)	1,124	(1,729)	844
Other comprehensive income (loss), net of tax	1,187	(2,139)	3,339	(1,604)
Comprehensive Income	$ 5,344	$ 1,079	$ 9,861	$ 4,094

See notes to consolidated condensed financial statements

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MutualFirst Financial, Inc.

Consolidated Condensed Statement of Changes in Stockholders' Equity
For the Period Ended June 30, 2016

(Unaudited)

(In Thousands, Except Share and Per Share Data)

	Common Stock	Paid-in Capital Common	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balances December 31, 2015	$ 74	$ 77,363	$ 58,098	$ 1,490	$ 137,025
Net income			6,522		6,522
Other comprehensive income, net of taxes				3,339	3,339
Stock repurchased	(2)	(4,352)			(4,354)
Stock options, exercised	1	975			976
Tax benefit on stock options		178			178
Cash dividends, common stock ($.28 per share)			(2,093)		(2,093)
Balances June 30, 2016	$ 73	$ 74,164	$ 62,527	$ 4,829	$ 141,593

See notes to consolidated condensed financial statements

MutualFirst Financial, Inc.

Consolidated Condensed Statements of Cash Flows

(Unaudited)

(In Thousands, Except Share and Per Share Data)

	Six Months Ended June 30,	
	2016	2015
Operating Activities		
Net income	$6,522	$5,698
Items not requiring cash		
Provision for loan losses	350	-
Depreciation and amortization	2,543	2,257
Deferred income tax	158	670
Loans originated for sale	(64,176)	(72,303)
Proceeds from sales of loans held for sale	63,724	67,785
Gain on sale of loans held for sale	(2,347)	(2,027)
Net gain on sale of securities, available for sale	(770)	(366)
Loss on sale of other real estate and repossessed assets	217	50
Change in		
Interest receivable and other assets	(551)	72
Interest payable and other liabilities	293	(30)
Cash value of life insurance	(590)	(601)
Other adjustments	70	71
Net cash provided by operating activities	5,443	1,276
Investing Activities		
Net change in interest-bearing time deposits	(980)	-
Purchases of securities, available for sale	(28,801)	(35,886)
Proceeds from maturities and paydowns of securities, available for sale	17,741	19,173
Proceeds from sales of securities, available for sale	29,901	13,383
Redemption of Federal Home Loan Bank stock	-	2,154
Purchase of Federal Home Loan Bank stock	(158)	-
Net change in loans	(28,628)	(24,297)
Purchases of premises and equipment	(1,690)	(704)
Proceeds from real estate owned sales	1,471	1,585
Proceeds from bank owned life insurance	1,121	-
Gain on bank owned life insurance	(346)	-
Other investing activities	65	-
Net cash used in investing activities	(10,304)	(24,592)
Financing Activities		

Net change in		
Noninterest-bearing, interest-bearing demand and savings deposits	14,714	33,087
Certificates of deposit	(9,595)	(34,119)
Proceeds from FHLB advances	129,900	193,700
Repayments of FHLB advances	(111,700)	(174,100)
Repayments of other borrowings	(379)	(379)
Cash dividends	(2,093)	(1,772)
Stock options exercised	976	1,593
Stock repurchased	(4,354)	-
Net cash provided by financing activities	17,469	18,010
Net Change in Cash and Cash Equivalents	12,608	(5,306)
Cash and Cash Equivalents, Beginning of Period	20,915	29,575
Cash and Cash Equivalents, End of Period	$33,523	$24,269
Additional Cash Flows Information		
Interest paid	$4,492	$4,332
Income tax paid	400	1,300
Transfers from loans to foreclosed real estate	816	436
Mortgage servicing rights capitalized	204	200
Purchase of securities, due to broker	3,766	-

See notes to consolidated condensed financial statements

MutualFirst Financial, Inc.

Notes to Consolidated Financial Statements

(Unaudited)

(In Thousands, Except Share and Per Share Data)

Note 1: Basis of Presentation

The consolidated condensed financial statements include the accounts of MutualFirst Financial, Inc. (MutualFirst or the “Company”), its wholly owned subsidiaries, MFBC Statutory Trust, MutualFirst Risk Management, Inc., Mutual Risk Advisors, Inc., and MutualBank, an Indiana commercial bank (“Mutual” or the “Bank”), Mutual’s wholly owned subsidiaries, First MFSB Corporation, Mishawaka Financial Services, Summit Service Corp. and the wholly owned subsidiary of Summit Service Corp., Summit Mortgage Inc. (“Summit”), Mutual Federal Investment Company (“MFIC”), and MFIC majority owned subsidiary, Mutual Federal REIT, Inc. All significant inter-company accounts and transactions have been eliminated in consolidation. These companies conform to accounting principles generally accepted in the United States of America and reporting practices followed by the banking industry. The more significant of the policies are described below.

Certain information and note disclosures normally included in the Company’s annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. These consolidated condensed financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s Form 10-K annual report for the year ended December 31, 2015, filed with the Securities and Exchange Commission on March 15, 2016.

The interim consolidated condensed financial statements at and for the three and six months ended June 30, 2016 and 2015, have not been audited by independent accountants, but in the opinion of management, reflect all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows for such periods. The results of operations for the period are not necessarily indicative of the results to be expected for the full year.

The Consolidated Condensed Balance Sheet of the Company as of December 31, 2015 has been derived from the Audited Consolidated Balance Sheet of the Company as of that date.

Note 2: Earnings Per Share

Earnings per share were computed as follows:

	Three Months Ended June 30,					
	2016			2015		
	Net Income	Weighted-Average Shares	Per-Share Amount	Net Income	Weighted-Average Shares	Per-Share Amount
Basic Earnings Per Share						
Net income	$4,157	7,453,333	$ 0.56	$3,218	7,383,435	$ 0.44
Effect of Dilutive Securities						
Stock options		142,955		-	164,299	
Diluted Earnings Per Share						
Net income available and assumed conversions	$4,157	7,596,288	$ 0.55	$3,218	7,547,734	$ 0.43

	Six Months Ended June 30,					
	2016			2015		
	Net Income	Weighted-Average Shares	Per-Share Amount	Net Income	Weighted-Average Shares	Per-Share Amount
Basic Earnings Per Share						
Net income	$6,522	7,459,871	$ 0.87	$5,698	7,348,773	$ 0.78
Effect of Dilutive Securities						
Stock options		146,213		-	179,633	
Diluted Earnings Per Share						
Net income available and assumed conversions	$6,522	7,606,084	$ 0.86	$5,698	7,528,406	$ 0.76

As of June 30, 2016, the exercise price for all options was lower than the average market price of the common shares. Options to purchase 37,161 shares of common stock were outstanding at June 30, 2015, but were not included in the computation of diluted EPS because the options' exercise prices were greater than the average market price of the common shares.

Note 3: Impact of Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Updated (ASU) 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Statements. Topic 326 amends guidance on reporting credit losses for assets held at amortized cost basis and available for sale debt securities. The ASU is intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations.

The ASU requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates.

Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. Organizations will continue to use judgment to determine which loss estimation method is appropriate for their circumstances.

The ASU requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. These disclosures include qualitative and quantitative requirements that provide additional information about the amounts recorded in the financial statements.

In addition, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration.

The ASU is effective for SEC filers for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019 (i.e., January 1, 2020, for calendar year entities. Early application will be permitted for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company is currently evaluating what impact this pronouncement will have on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, Compensation–Stock Compensation: Improvements to Employee Share-Based Payment Accounting. The amendments are intended to improve the accounting for employee share-based payments and affect all organizations that issue share-based payment awards to their employees.

Several aspects of the accounting for share-based payment award transactions are simplified, including: *(a)* income tax consequences; *(b)* classification of awards as either equity or liabilities; and *(c)* classification on the statement of cash flows.

For public companies, the amendments are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted for any organization in any interim or annual period. The Company does not anticipate that this ASU will have a material effect on its financial position or results of operations.

In March 2016, the FASB issued ASU 2016-07, Investments - Equity Method and Joint Ventures: Simplifying the Transition to the Equity Method of Accounting. The amendments affect all entities that have an investment that becomes qualified for the equity method of accounting as a result of an increase in the level of ownership interest or degree of influence.

The amendments eliminate the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investment, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods that the investment had been held. The amendments require that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor’s previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. Therefore, upon qualifying for the equity method of accounting, no retroactive adjustment of the investment is required.

The amendments require that an entity that has an available-for-sale equity security that becomes qualified for the equity method of accounting recognize through earnings the unrealized holding gain or loss in accumulated other comprehensive income at the date the investment becomes qualified for use of the equity method.

The amendments are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. The amendments should be applied prospectively upon their effective date to increases in the level of ownership interest or degree of influence that result in the adoption of the equity method. Earlier application is permitted. The Company does not anticipate that this ASU will have a material effect on its financial position or results of operations.

In March 2016, the FASB issued ASU 2016-06, Derivatives and Hedging: Contingent Put and Call Options in Debt Instruments. The amendments apply to all entities that are issuers of or investors in debt instruments (or hybrid financial instruments that are determined to have a debt host) with embedded call (put) options.

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Derivatives and Hedging, requires that embedded derivatives be separated from the host contract and accounted for separately as derivatives if certain criteria are met. One of those criteria is that the economic characteristics and risks of the embedded derivatives are not clearly and closely related to the economic characteristics and risks of the host contract (the "clearly and closely related" criterion).

U.S. GAAP provides specific guidance for assessing whether call (put) options that can accelerate the repayment of principal on a debt instrument meet the clearly and closely related criterion. The guidance states that for contingent call (put) options to be considered clearly and closely related, they can be indexed only to interest rates or credit risk.

The amendments clarify what steps are required when assessing whether the economic characteristics and risks of call (put) options are clearly and closely related to the economic characteristics and risks of their debt hosts, which is one of the criteria for bifurcating an embedded derivative. Consequently, when a call (put) option is contingently exercisable, an entity does not have to assess whether the event that triggers the ability to exercise a call (put) option is related to interest rates or credit risks.

Public business entities must apply the new requirements for fiscal years beginning after December 15, 2016 and interim periods within those fiscal years. All entities have the option of adopting the new requirements early, including adoption in an interim period. If an entity early adopts the new requirements in an interim period, it must reflect any adjustments as of the beginning of the fiscal year that includes that interim period. The Company does not anticipate that this ASU will have a material effect on its financial position or results of operations.

In February 2016, the FASB issued ASU 2016-02, Leases. The objective of the amendment is to establish the principles that lessees and lessors shall apply to report useful information to users of financial statements about the amount, timing, and uncertainty of cash flows arising from a lease.

The most significant changes under the new guidance, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date:

- A lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and
- A right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term.

The amendments in this update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently evaluating what impact this pronouncement will have on its consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities. The amendments in this Update require all equity investments to be measured at fair value with changes in the fair value recognized through net income (other than those accounted for under equity method of accounting or those that result in consolidation of the investee).

The amendments also require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. In addition the amendments in this Update eliminate the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities and the requirement for to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet for public business entities.

The new guidance is effective for fiscal years beginning of December 15, 2017, including interim periods within those fiscal years. The Company does not anticipate that this ASU will have a material effect on its financial position or results of operations.

In December 2015, the FASB issued ASU 2015-16, Business Combinations, Simplifying the Accounting for Measurement-Period Adjustments. The objective of this Update was to simplify the accounting for adjustments made to provisional amounts recognized in a business combination. The amendments eliminate the requirement to retrospectively account for those adjustments. The Company does not anticipate that this ASU will have a material effect on its financial position or results of operations.

Note 4: Investment Securities

The amortized costs and approximate fair values, together with gross unrealized gains and losses on securities, are in the tables below. All mortgage-backed securities and collateralized mortgage obligations held as of June 30, 2016 and December 31, 2015 were guaranteed by government sponsored entities, government corporations or federal agencies.

	June 30, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale Securities				
Mortgage-backed securities	$96,051	$ 2,615	$ (5)	$98,661
Collateralized mortgage obligations	70,659	1,254	(41)	71,872
Municipal obligations	64,307	4,955	(1)	69,261
Corporate obligations	12,807	45	(1,320)	11,532
Total investment securities	$243,824	$ 8,869	$ (1,367)	$251,326

	December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale Securities				
Mortgage-backed securities	$106,524	$ 1,562	$ (248)	$107,838
Collateralized mortgage obligations	84,976	537	(861)	84,652
Municipal obligations	54,427	2,781	(20)	57,188
Corporate obligations	12,805	1	(1,346)	11,460
Total investment securities	$258,732	$ 4,881	$ (2,475)	$261,138

The amortized cost and fair value of securities available for sale at June 30, 2016, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available for Sale	
Description Securities	Amortized Cost	Fair Value
Security obligations due		
Within one year	$-	$-
One to five years	9,847	9,877
Five to ten years	5,987	6,539

After ten years	61,280	64,377
	77,114	80,793
Mortgage-backed securities	96,051	98,661
Collateralized mortgage obligations	70,659	71,872
Totals	$243,824	$251,326

Proceeds from sales of securities available for sale for the three and six months ended June 30, 2016 and 2015 were $26.0 million and $29.9 million and $5.8 million and $13.4 million, respectively. Gross gains of $701,000 and $819,000 and $126,000 and $366,000 for the three and six months ended June 30, 2016 and 2015, respectively, were recognized on those sales. Gross losses of $49,000 for the three and six months ended June 30, 2016, were also recognized on those sales. There were no gross losses recognized on the sales of securities for the three and six months ended June 30, 2015, respectively.

Certain investments in debt securities are reported in the financial statements at an amount less than their historical cost. Total fair value of these investments at June 30, 2016 and December 31, 2015 was $14.0 million and $97.6 million, respectively, which was approximately 5.6 percent and 37.4 percent, respectively, of the Company's investment portfolio at those dates.

Based on our evaluation of available evidence, including recent changes in market interest rates, management believes the fair value for the securities at less than historical cost for the periods presented, are temporary.

Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period the other-than-temporary impairment is identified.

During the first six months of 2016 and 2015, the Bank determined that its security holdings had no other-than-temporary impairment.

The following tables show the gross unrealized losses and fair value of the Company's investments, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at June 30, 2016 and December 31, 2015:

	June 30, 2016					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available for Sale						
Mortgage-backed securities	$1,390	$ (5)	$ -	$ -	$1,390	$ (5)
Collateralized mortgage obligations	-	-	5,254	(41)	5,254	(41)
Municipal obligations	-	-	338	(1)	338	(1)
Corporate obligations	4,452	(48)	2,534	(1,272)	6,986	(1,320)

Total temporarily impaired securities	$5,842	$ (53)	$8,126	$ (1,314)	$13,968	$ (1,367)

	December 31, 2015					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available for Sale						
Mortgage-backed securities	$38,649	$ (248)	$ -	$ -	$38,649	$ (248)
Collateralized mortgage obligations	27,457	(281)	21,271	(580)	$48,728	$ (861)
Municipal obligations	2,739	(17)	491	(3)	3,230	(20)
Corporate obligations	4,425	(75)	2,534	(1,271)	6,959	(1,346)
Total temporarily impaired securities	$73,270	$ (621)	$24,296	$ (1,854)	$97,566	$ (2,475)

Mortgage-Backed Securities (MBS) and Collateralized Mortgage Obligations (CMO)

The unrealized losses on the Company's investment in MBSs and CMOs were caused by interest rate changes. The Company expects to recover the amortized cost basis over the term of the securities. Because (1) the decline in market value is attributable to changes in interest rates and not credit quality, (2) the Company does not intend to sell the investments and (3) it is more likely than not the Company will not be required to sell the investments before recovery of their amortized cost bases, which may be at maturity, the Company does not consider any of these investments to be other-than-temporarily impaired at June 30, 2016.

Municipals

The unrealized losses on the Company's investments in securities of state and political subdivisions were caused by changes in interest rates. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost basis of the investments. The Company does not intend to sell these investments and it is more likely than not that the Company will not be required to sell these investments. The Corporation does not consider any of these investment securities to be other-than-temporarily impaired at June 30, 2016.

Corporate Obligations

The Company's unrealized losses on investments in corporate obligations primarily relates to two investments in pooled trust preferred securities. The unrealized losses were primarily caused by (1) a decrease in performance and regulatory capital resulting from exposure to subprime mortgages and (2) a sector downgrade by industry analysts. The Company recognized losses, in 2011 and earlier, equal to the credit losses for these securities, establishing a new, lower amortized cost basis. The credit loss was calculated by comparing expected discounted cash flows based on performance indicators of the underlying assets in the security to the carrying value of the investment. Because the Company does not intend to sell these investments and it is likely that the Company will not be required to sell the investments before recovery of its new, lower amortized cost basis, which may be at maturity, it does not consider the remainder of these investments to be other-than-temporarily impaired at June 30, 2016.

Other-Than-Temporary Impairment (OTTI)

Upon acquisition of a security, the Company decides whether it is within the scope of the accounting guidance for beneficial interests in securitized financial assets or whether it will be evaluated for impairment under the accounting guidance for investments in debt and equity securities.

The accounting guidance for beneficial interests in securitized financial assets provides incremental impairment guidance for a subset of the debt securities within the scope of the guidance for investments in debt and equity securities. For securities that are a beneficial interest in securitized financial assets, the Company uses the beneficial interests in securitized financial asset impairment model. For securities that are not a beneficial interest in securitized financial assets, the Company uses debt and equity securities impairment accounting model.

The Company conducts periodic reviews to identify and evaluate each investment security to determine whether an other-than-temporary impairment has occurred. Economic models are used to determine whether an other-than-temporary impairment has occurred on these securities. While all securities are considered, the securities primarily impacted by other-than-temporary impairment testing are private-label mortgage-backed securities and trust preferred securities.

MutualFirst Financial uses market-based yield indicators as a baseline for determining appropriate discount rates, and then adjusts the resulting discount rates on the basis of its credit and structural analysis of specific trust preferred securities. The primary focus is on the returns a fixed income investor would require in order to allocate capital on a risk adjusted basis. There is currently little demand for pooled trust preferred securities; however, the Company looks principally to market yields for stand-alone trust preferred securities issued by banks, thrifts and insurance companies for which there is an active and liquid market. The next step is to make a series of adjustments to reflect the differences that exist between these products (both credit and structural) and, most importantly, to reflect idiosyncratic credit performance differences (both actual and projected) between these products and the underlying collateral in the specific trust preferred security. Importantly, as part of the analysis described above, MutualFirst considers the fact that structured instruments frequently exhibit leverage not present in stand-alone instruments, and makes adjustments as necessary to reflect this additional risk.

Credit Losses Recognized on Investments

Certain debt securities have experienced fair value deterioration due to credit losses, as well as due to other market factors, but are not otherwise other-than-temporarily impaired.

The following tables provide information about debt securities for which only a credit loss was recognized in income and other losses are recorded in other comprehensive income for the three and six months ended June 30, 2016 and 2015.

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2016	**2015**	**2016**	**2015**
Credit losses on debt securities held				
Beginning of period	$ 109	$ 109	$ 109	$ 109
Reductions related to actual losses incurred	-	-	-	-
As of June 30,	$ 109	$ 109	$ 109	$ 109

Pooled Trust Preferred Securities. The Company has invested in pooled trust preferred securities. At June 30, 2016, the current book balance of our pooled trust preferred securities was $3.8 million. The original par value of these securities was $4.0 million prior to the OTTI write-downs in 2011 and earlier. OTTI taken on trust preferred securities previously was the result of deterioration in the performance of the underlying collateral. The deterioration was the result of increased defaults and deferrals of dividend payments in that year, creating credit impairment along with weakening financial performance of performing collateral, increasing the risk of future deferrals of dividends and defaults. No additional OTTI was determined in the first half of 2016. All pooled trust preferred securities owned by the Company are exempt from the Volcker Rule.

The following table provides additional information related to the Company's investment in pooled trust preferred securities as of June 30, 2016:

Deal Name	Class	Original Par	Book Value	Fair Value	Unrealized loss	Realized Losses YTD	Lowest Current Rating	Number of Banks / Insurance Cos. Currently Performing	Total Number of Banks and Insurance Cos. In Issuance (Unique)	Actual Deferrals/ Defaults (as a % of original collateral)	**Total Projected Defaults (as a % of performing collateral)** (1)	**Excess subordination (after taking into account best estimate of future deferrals/ defaults)** (2)
		(Dollars in Thousands)										
Alesco Preferred Funding IX	A1	$1,000	$915	$548	$(367)	$-	CCC-	43	50	6.75%	10.68%	54.87%
U.S. Capital Funding I	B3	3,000	2,891	1,986	(905)	-	C	29	33	7.95%	6.45 %	11.81%
		$4,000	$3,806	$2,534	$(1,272)	$-						

(1) A 10% recovery is applied to all projected defaults by depository institutions. A 15% recovery is applied to all projected defaults by insurance companies. No recovery is applied to current defaults.

(2) Excess subordination represents the additional defaults in excess of both current and projected defaults that the CDO can absorb before the bond experiences any credit impairment. Excess subordinated percentage is calculated

by (a) determining what percentage of defaults a deal can experience before the bond has credit impairment, and (b) subtracting from this default breakage percentage both total current and expected future default percentages.

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Note 5: Accumulated Other Comprehensive Income

The components of accumulated other comprehensive income, included in stockholders' equity, are as follows:

	June 30, 2016	December 31, 2015
Net unrealized gain on securities available-for-sale	$ 8,407	$ 3,311
Net unrealized loss on securities available-for-sale for which a portion of an other-than-temporary impairment has been recognized in income	(905)	(905)
Net unrealized loss on derivative used for cash flow hedges	(29)	(1)
Net unrealized loss relating to defined benefit plan liability	(32)	(32)
	7,441	2,373
Tax expense	2,612	883
Net of tax amount	$ 4,829	$ 1,490

The following table presents the reclassification adjustments out of accumulated other comprehensive income that were included in net income in the Consolidated Statements of Income for the three and six months ended June 30, 2016 and 2015.

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income For the Three Months Ended June 30, 2016	2015	Affected Line Item in the Statements of Income
Unrealized gains on available-for-sale securities			
Realized securities gains reclassified into income	$ 652	$ 126	Total non-interest income - net realized gains on sale of available-for-sale securities
Related income tax expense	(222)	(43)	Income tax expense
Total reclassifications for the period, net of tax	$ 430	$ 83	

Amount Reclassified from
Accumulated Other

Details about Accumulated Other Comprehensive Income Components	Comprehensive Income For the Six Months Ended June 30, 2016	2015	Affected Line Item in the Statements of Income
Unrealized gains on available-for-sale securities			
Realized securities gains reclassified into income	$ 770	$ 366	Total non-interest income - net realized gains on sale of available-for-sale securities
Related income tax expense	(262)	(124)	Income tax expense
Total reclassifications for the period, net of tax	$ 508	$ 242	

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Note 6: Fair Values of Financial Instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1	Quoted prices in active markets for identical assets or liabilities
Level 2	Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
Level 3	Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

Items Measured at Fair Value on a Recurring Basis

Following is a description of the valuation methodologies and inputs used for instruments measured at fair value on a recurring basis and recognized in the accompanying comparative balance sheet, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Available-for-Sale Securities

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. The Company uses a third-party provider to provide market prices on its securities. Pooled trust preferred securities prices are evaluated by a third party. Level 1 securities include marketable equity securities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include mortgage-backed, collateralized mortgage obligations, small business administration, marketable equity, municipal, federal agency and certain corporate obligation securities. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy and include certain corporate obligation securities.

Third party vendors compile prices from various sources and may apply such techniques as matrix pricing to determine the value of identical or similar investment securities (Level 2). Matrix pricing is a mathematical technique widely used in the banking industry to value investment securities without relying exclusively on quoted prices for specific investment securities but rather relying on investment securities relationship to other benchmark quoted investment securities. Any investment security not valued based upon the methods above are considered Level 3.

The following table presents the fair value measurements of assets measured on a recurring basis and level within the ASC 820 fair value hierarchy.

		Fair Value Measurements Using		
	Fair Value	Level 1	Level 2	Level 3
June 30, 2016				
Mortgage-backed securities	$ 98,661	$ -	$ 98,661	$ -
Collateralized mortgage obligations	71,872	-	71,872	-
Municipal obligations	69,261	-	69,261	-
Corporate obligations	11,532	-	8,998	2,534
Available-for-sale securities	$ 251,326	$ -	$ 248,792	$ 2,534

		Fair Value Measurements Using		
	Fair Value	Level 1	Level 2	Level 3
December 31, 2015				
Mortgage-backed securities	$ 107,838	$ -	$ 107,838	$ -
Collateralized mortgage obligations	84,652	-	84,652	-
Municipal obligations	57,188	-	57,188	-
Corporate obligations	11,460	-	8,926	2,534
Available-for-sale securities	$ 261,138	$ -	$ 258,604	$ 2,534

The following is a reconciliation of the beginning and ending balances for the three and six months ended June 30, 2016 and 2015 of recurring fair value measurements recognized in the accompanying balance sheets using significant unobservable (Level 3) inputs:

	Three Months Ended June 30, 2016	2015	Six Months Ended June 30, 2016	2015
Beginning balance	$ 2,534	$ 2,522	$ 2,534	$ 2,522
Total realized and unrealized gains (losses)				
Included in net income	-	-	-	-
Included in other comprehensive income (loss)	-	-	-	-
Purchases, issuances and settlements	-	-	-	-
Ending balance	$ 2,534	$ 2,522	$ 2,534	$ 2,522
Total gains or losses for the period included in net income attributable to the change in unrealized gains or losses related to assets still held at the reporting date	$ 0	$ 0	$ 0	$ 0

Items Measured at Fair Value on a Non-Recurring Basis

From time to time, certain assets may be recorded at fair value on a non-recurring basis. These non-recurring fair value adjustments typically are a result of the application of lower of cost or fair value accounting or a write-down occurring during the period. The following is a description of the valuation methodologies used for certain assets that are recorded at fair value.

The following table presents the fair value measurement of assets measured on a nonrecurring basis and the level within the ASC 820 fair value hierarchy.

Impaired Loans (Collateral Dependent)

Loans for which it is probable that the Bank will not collect all principal and interest due according to contractual terms are measured for impairment. Allowable methods for determining the amount of impairment include estimating fair value using the fair value of the collateral for collateral dependent loans.

If the impaired loan is identified as collateral dependent, then the fair value method of measuring the amount of impairment is utilized. This method requires obtaining a current independent appraisal of the collateral and applying a discount factor to the value.

Impaired loans that are collateral dependent are classified within Level 3 of the fair value hierarchy when impairment is determined using the fair value method.

		Fair Value Measurements Using		
	Fair Value	Level 1	Level 2	Level 3
December 31, 2015				
Impaired loans	$ 676	$ -	$ -	$ 676

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The following table presents quantitative information about unobservable inputs used in recurring and nonrecurring Level 3 fair value measurements:

June 30, 2016	Fair Value	Valuation Technique	Unobservable Inputs	Range	
Trust Preferred Securities	$ 2,534	Discounted cash flow	Discount rate	7.0 - 8.0	%
			Constant prepayment rate	2.0	%
			Cumulative projected prepayments	40.0	%
			Probability of default	1.7 - 1.8	%
			Projected cures given deferral	0 - 15.0	%
			Loss severity	33.8 - 40.2	%

December 31, 2015	Fair Value	Valuation Technique	Unobservable Inputs	Range	
Trust Preferred Securities	$ 2,534	Discounted cash flow	Discount rate	7.0 - 8.0	%
			Constant prepayment rate	2.0	%
			Cumulative projected prepayments	40.0	%
			Probability of default	1.7 - 1.8	%
			Projected cures given deferral	0 - 15.0	%
			Loss severity	33.8 - 40.2	%
Impaired loans (collateral dependent)	$ 676	Third party valuations	Discount to reflect realizable value	20.0 - 50.0	%

The following methods and assumptions were used to estimate the fair value of all other financial instruments recognized in the accompanying balance sheets at amounts other than fair value:

Cash and Cash Equivalents - The fair value of cash and cash-equivalents approximates carrying value.

Interest Bearing Time Deposits – The fair value of interest bearing time deposits approximates carrying value.

Loans Held For Sale - Fair values are based on quoted market prices.

Loans - The fair value for loans is estimated using discounted cash flow analyses using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality.

FHLB Stock - Fair value of FHLB stock is based on the price at which it may be resold to the FHLB.

Interest Receivable/Payable - The fair values of interest receivable/payable approximate carrying values.

Deposits - The fair values of noninterest-bearing, interest-bearing demand and savings accounts are equal to the amount payable on demand at the balance sheet date. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on such time deposits.

FHLB Advances - The fair value of these borrowings is estimated using a discounted cash flow calculation, based on current rates for similar debt for periods comparable to the remaining terms to maturity of these advances.

Other Borrowings - The fair value of these borrowings is estimated using discounted cash flow analyses using interest rates for similar financial instruments.

Off-Balance Sheet Commitments - Commitments include commitments to purchase and originate mortgage loans, commitments to sell mortgage loans, and standby letters of credit and are generally of a short-term nature. The fair values of such commitments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. The fair value of these instruments is insignificant.

The estimated fair values of the Company's financial instruments not carried at fair value in the consolidated balance sheets as of the dates noted below are as follows:

			Fair Value Measurements Using		
June 30, 2016	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Assets					
Cash and cash equivalents	$33,523	$33,523	$33,523	$-	$-
Interest-bearing time deposits	980	980	980	-	-
Loans held for sale	8,587	8,679	-	8,679	-
Loans, net	1,094,764	1,097,421	-	-	1,097,421
FHLB stock	10,640	10,640	-	10,640	-
Interest receivable	4,314	4,314	-	4,314	-
Liabilities					
Deposits	1,096,501	1,099,925	755,473	-	344,452
FHLB advances	243,817	246,724	-	246,724	-
Other borrowings	9,100	9,129	-	9,129	-
Interest payable	250	250	-	250	-

			Fair Value Measurements Using		
December 31, 2015	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Assets					
Cash and cash equivalents	$20,915	$20,915	$20,915	$-	$-
Loans held for sale	5,991	6,058	-	6,058	-
Loans, net	1,068,204	1,056,357	-	-	1,056,357
FHLB stock	10,482	10,482	-	10,482	-
Interest receivable	4,201	4,201	-	4,201	-
Liabilities					
Deposits	1,091,382	1,090,975	740,759	-	350,216
FHLB advances	225,617	224,621	-	224,621	-
Other borrowings	9,458	9,459	-	9,459	-
Interest payable	199	199	-	199	-

Note 7: Loans and Allowance

Classes of loans at June 30, 2016 and December 31, 2015 include:

	June 30, 2016	December 31, 2015
Real estate		
Commercial	$262,045	$ 236,895
Commercial construction and development	18,536	15,744
Consumer closed end first mortgage	485,248	491,451
Consumer open end and junior liens	70,557	70,990
	836,386	815,080
Other loans		
Consumer loans		
Auto	16,610	15,480
Boat/RVs	135,058	123,621
Other	5,748	6,171
Commercial and industrial	120,003	123,043
	277,419	268,315
Total loans	1,113,805	1,083,395
Undisbursed loans in process	(11,624)	(7,432)
Unamortized deferred loan costs, net	5,187	4,882
Allowance for loan losses	(12,604)	(12,641)
Net loans	$1,094,764	$ 1,068,204

The risk characteristics of each loan portfolio segment are as follows:

Commercial

Real estate

These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate lending typically involves higher loan principal amounts and the repayment of these loans is generally dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The properties securing the Company’s commercial real estate portfolio are diverse in terms of type and geographic location. Management monitors and evaluates commercial real estate loans based on collateral, geography and risk grade criteria. As a general rule, the Company avoids financing single purpose projects unless other underwriting factors are present to help mitigate risk. In addition, management tracks the level of owner-occupied commercial real estate loans versus non-owner occupied loans.

Construction and Development

Construction loans are underwritten utilizing feasibility studies, independent appraisal reviews, sensitivity analyses of absorption and lease rates and financial analyses of the developers and property owners. Construction loans are generally based on estimates of costs and value associated with the complete project. These estimates may be inaccurate. Construction loans often involve the disbursement of substantial funds with repayment substantially dependent on the success of the ultimate project. Sources of repayment for these types of loans may be pre-committed permanent loans from approved long-term lenders, sales of developed property or an interim loan commitment from the Company until permanent financing is obtained. These loans are closely monitored by on-site inspections and are considered to have higher risks than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, governmental regulation of real property, general economic conditions and the availability of long-term financing.

Commercial and Industrial

Commercial loans are primarily based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not be as expected and the collateral securing these loans may fluctuate in value. Most commercial loans are secured by the assets being financed or other business assets such as accounts receivable or inventory and may incorporate a personal guarantee; however, some loans may be made on an unsecured basis. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers.

Consumer Real Estate and Other Consumer Loans

With respect to residential loans that are secured by consumer closed end first mortgages and are primarily owner occupied, the Company generally establishes a maximum loan-to-value ratio and requires PMI if that ratio is exceeded. Consumer open end and junior lien loans are typically secured by a subordinate interest in 1-4 family residences, and other consumer loans are secured by consumer assets such as automobiles or recreational vehicles. Some consumer loans are unsecured such as small installment loans and certain lines of credit. Repayment of these loans is primarily dependent on the personal income of the borrowers, which can be impacted by economic conditions in their market areas such as unemployment levels. Repayment can also be impacted by changes in property values on residential properties. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

Nonaccrual Loans and Past Due Loans

Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. Loans are placed on non-accrual status when, in management's opinion, the borrower may be unable to meet payment obligations as they become due, as well as when required by regulatory provisions, but never greater than 90 days past due.

All interest accrued but not collected for loans that are placed on nonaccrual status or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured and generally only after six months of satisfactory performance.

Nonaccrual loans, segregated by class of loans, as of June 30, 2016 and December 31, 2015 are as follows:

	June 30, 2016	December 31, 2015
Real estate		
Commercial	$ 1,799	$ 2,356
Commercial construction and development	2	-
Consumer closed end first mortgage	2,816	3,592
Consumer open end and junior liens	125	783
Consumer loans		

Auto	18	-
Boat/RVs	60	81
Other	22	67
Commercial and industrial	17	25
Total nonaccrual loans	$ 4,859	$ 6,904

An age analysis of the Company's past due loans, segregated by class of loans, as of June 30, 2016 and December 31, 2015 are as follows:

	June 30, 2016						
	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans Receivable	Total Loans 90 Days or More Past Due and Accruing
Real estate							
Commercial	$882	$-	$ 1,662	$2,544	$259,501	$262,045	$ -
Commercial construction and development	10	-	2	12	18,524	18,536	-
Consumer closed end first mortgage	8,038	932	2,922	11,892	473,356	485,248	387
Consumer open end and junior liens	371	196	125	692	69,865	70,557	-
Consumer loans							
Auto	76	27	18	121	16,489	16,610	-
Boat/RVs	791	221	44	1,056	134,002	135,058	-
Other	93	31	22	146	5,602	5,748	-
Commercial and industrial	442	-	-	442	119,561	120,003	-
Total	$10,703	$1,407	$ 4,795	$16,905	$1,096,900	$1,113,805	$ 387

	December 31, 2015						
	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans Receivable	Total Loans 90 Days or More Past Due and Accruing
Real estate							
Commercial	$922	$20	$ 2,212	$3,154	$233,741	$236,895	$ -
Commercial construction and development	-	-	-	-	15,744	15,744	-
Consumer closed end first mortgage	7,272	1,328	3,091	11,691	479,760	491,451	267
Consumer open end and junior liens	296	187	765	1,248	69,742	70,990	-
Consumer loans							
Auto	89	-	-	89	15,391	15,480	-
Boat/RVs	1,135	102	71	1,308	122,313	123,621	-
Other	89	14	62	165	6,006	6,171	-
Commercial and industrial	192	383	5	580	122,463	123,043	-
Total	$9,995	$2,034	$ 6,206	$18,235	$1,065,160	$1,083,395	$ 267

Impaired Loans

Loans are considered impaired in accordance with the impairment accounting guidance (ASC 310-10-35-16), when, based on current information and events, it is probable the Company will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Impaired loans include nonperforming loans but also include loans modified in troubled debt restructurings where concessions have been granted to borrowers experiencing financial difficulties. These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection.

Interest on impaired loans is recorded based on the performance of the loan. All interest received on impaired loans that are on nonaccrual status is accounted for on the cash-basis method until qualifying for return to accrual status. Interest is accrued per the contract for impaired loans that are performing.

The following tables present impaired loans as of and for the three and six month periods ended June 30, 2016 and 2015 and the year ended December 31, 2015. There were no loans with a specific valuation allowance as of June 30, 2015.

	June 30, 2016						
	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans - QTR	Average Investment in Impaired Loans - YTD	Interest Income Recognized - QTR	Interest Income Recognized - YTD
Loans without a specific valuation allowance							
Real estate							
Commercial	$2,896	$ 2,896	$ -	$ 3,022	$ 3,080	$ 24	$ 48
Commercial construction and development	853	853	-	856	907	9	21
Consumer closed end first mortgage	1,126	1,126	-	1,126	1,126	-	-
Consumer open end and junior liens	-	-	-	243	322	-	-
Commercial and industrial	200	200	-	205	208	-	-
Loans with a specific valuation allowance							
Real estate							
Commercial	410	410	100	464	534	-	-
Total							
Real estate							
Commercial	$3,306	$ 3,306	$ 100	$ 3,486	$ 3,614	$ 24	$ 48
Commercial construction and development	$853	$ 853	$ -	$ 856	$ 907	$ 9	$ 21
Consumer closed end first mortgage	$1,126	$ 1,126	$ -	$ 1,126	$ 1,126	$ -	$ -
Consumer open end and junior liens	$-	$ -	$ -	$ 243	$ 322	$ -	$ -
Commercial and industrial	$200	$ 200	$ -	$ 205	$ 208	$ -	$ -
Total	$5,485	$ 5,485	$ 100	$ 5,916	$ 6,177	$ 33	$ 69

	December 31, 2015				
	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized
Loans without a specific valuation allowance					
Real estate					
Commercial	$3,608	$ 3,608	$ -	$ 4,115	$ 172
Commercial construction and development	595	595	-	735	31
Consumer closed end first mortgage	1,126	1,126	-	1,131	-
Consumer open end and junior liens	481	481	-	381	-
Commercial and industrial	214	214	-	423	2
Loans with a specific valuation allowance					
Real estate					
Commercial	676	676	100	793	20
Total					
Real estate					
Commercial	$4,284	$ 4,284	$ 100	$ 4,908	$ 192
Commercial construction and development	$595	$ 595	$ -	$ 735	$ 31
Consumer closed end first mortgage	$1,126	$ 1,126	$ -	$ 1,131	$ -
Consumer open end and junior liens	$481	$ 481	$ -	$ 381	$ -
Commercial and industrial	$214	$ 214	$ -	$ 423	$ 2
Total	$6,700	$ 6,700	$ 100	$ 7,578	$ 225

	June 30, 2015						
	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans - QTR	Average Investment in Impaired Loans - YTD	Interest Income Recognized - QTR	Interest Income Recognized - YTD
Loans without a specific valuation allowance							
Real estate							
Commercial	$5,169	$ 5,169	$ -	$ 5,197	$ 5,109	$ 60	$ 116
Commercial construction and development	649	1,155	-	750	810	8	15
Consumer closed end first mortgage	1,603	1,603	-	1,609	1,452	-	-
Commercial and industrial	224	255	-	463	561	1	2
Total	$7,645	$ 8,182	$ -	$ 8,019	$ 7,932	$ 69	$ 133

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The following information presents the credit risk profile of the Company's loan portfolio based on rating category and payment activity as of June 30, 2016.

Commercial Loan Grades

Definition of Loan Grades. Loan grades are numbered 1 through 8. Grades 1-4 are "pass" credits, grade 5 [Special Mention] loans are "criticized" assets, and grades 6 [Substandard], 7 [Doubtful] and 8 [Loss] are "classified" assets. The use and application of these grades by the Bank conform to the Bank's policy and regulatory definitions.

Pass. Pass credits are loans in grades prime through fair. These are at least considered to be credits with acceptable risks and would be granted in the normal course of lending operations.

Special Mention. Special mention credits have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the credits or in the Bank's credit position at some future date. If weaknesses cannot be identified, classifying as special mention is not appropriate. Special mention credits are not adversely classified and do not expose the Bank to sufficient risk to warrant an adverse classification. No apparent loss of principal or interest is expected.

Substandard. Substandard credits are inadequately protected by the current sound worth and paying capacity of the obligor or by the collateral pledged. Financial statements normally reveal some or all of the following: poor trends, lack of earnings and cash flow, excessive debt, lack of liquidity, and the absence of creditor protection. Credits so classified must have a well-defined weakness, or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

Doubtful. A doubtful extension of credit has all the weaknesses inherent in a substandard asset with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. The possibility of loss is extremely high, but because of certain important and reasonably specific pending factors that may work to the advantage and strengthening of the asset, its classification as an estimated loss is deferred until its more exact status may be determined. Pending factors include proposed merger, acquisition, or liquidation procedures, capital injection, perfecting liens on additional collateral, and refinancing plans. Doubtful classification for an entire credit should be avoided when collection of a specific portion appears highly probable with the adequately secured portion graded Substandard.

Retail Loan Grades

Pass. Pass credits are loans that are currently performing as agreed and are not troubled debt restructurings.

Special Mention. Special mention credits have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the credits or in the Bank's credit position at some future date. If weaknesses cannot be identified, classifying as special mention is not appropriate. Special mention credits are not adversely classified and do not expose the Bank to sufficient risk to warrant an adverse classification. No apparent loss of principal or interest is expected.

Substandard. Substandard credits are loans that have reason to be considered to have a weakness and placed on non-accrual. This would include all retail loans over 90 days and troubled debt restructurings.

	June 30, 2016							
	Commercial				Consumer			
	Pass	Special Mention	Substandard	Doubtful	Pass	Special Mention	Substandard	Total
Real estate								
Commercial	$251,370	$5,392	$5,252	$31				$262,045
Commercial construction and development	17,080	1,009	447	-				18,536
Consumer closed end first mortgage					$478,856	$ -	$6,392	485,248
Consumer open end and junior liens					70,328	-	229	70,557
Other loans								
Consumer loans								
Auto					16,591	-	19	16,610
Boat/RVs					134,899	-	159	135,058
Other					5,719	-	29	5,748
Commercial and industrial	117,936	1,896	171	-				120,003
	$386,386	$8,297	$5,870	$31	$706,393	$ -	$6,828	$1,113,805

	December 31, 2015							
	Commercial				Consumer			
	Pass	Special Mention	Substandard	Doubtful	Pass	Special Mention	Substandard	Total
Real estate								
Commercial	$226,439	$4,137	$6,319	$ -				$236,895
Commercial construction and development	13,986	1,309	449	-				15,744
Consumer closed end first mortgage					$484,658	$ -	$6,793	491,451
Consumer open end and junior liens					70,086	-	904	70,990
Other loans								
Consumer loans								
Auto					15,480	-	-	15,480
Boat/RVs					123,490	-	131	123,621
Other					6,097	-	74	6,171
Commercial and industrial	119,540	3,300	203	-				123,043
	$359,965	$8,746	$6,971	$ -	$699,811	$ -	$7,902	$1,083,395

Allowance for Loan Losses.

We maintain an allowance for loan losses to absorb losses inherent in the loan portfolio. The allowance is based on ongoing, quarterly assessments of the estimated losses inherent in the loan portfolio. Our methodology for assessing the appropriateness of the allowance consists of several key elements, including the general allowance and specific allowances for identified problem loans and portfolio segments. In addition, the allowance incorporates the results of measuring impaired loans as provided in FASB ASC 310, Receivables. These accounting standards prescribe the measurement methods, income recognition and disclosures related to impaired loans. The general allowance is calculated by applying loss factors to outstanding loans based on the internal risk evaluation of such loans or pools of loans. Changes in risk evaluations of both performing and nonperforming loans affect the amount of the general allowance. Loss factors are based on our historical loss experience as well as on significant factors that, in management's judgment, affect the collectability of the portfolio as of the evaluation date.

The appropriateness of the allowance is reviewed by management based upon its evaluation of then-existing economic and business conditions affecting our key lending areas and other conditions, such as credit quality trends (including trends in non-performing loans expected to result from existing conditions), collateral values, loan volumes and concentrations, specific industry conditions within portfolio segments and recent loss experience in particular segments of the portfolio that existed as of the balance sheet date and the impact that such conditions were believed to have had on the collectability of the loan. Senior management reviews these conditions quarterly in discussions with our senior credit officers. To the extent that any of these conditions is evidenced by a specifically identifiable problem credit or portfolio segment as of the evaluation date, management's estimate of the effect of such condition may be reflected as a specific allowance applicable to such credit or portfolio segment. Where any of these conditions is not evidenced by a specifically identifiable problem credit or portfolio segment as of the evaluation date, management's evaluation of the loss related to this condition is reflected in the general allowance for loan losses. The evaluation of the inherent loss with respect to these conditions is subject to a higher degree of uncertainty because they are not identified with specific problem credits or portfolio segments.

The allowance for loan losses is based on estimates of losses inherent in the loan portfolio. Actual losses can vary significantly from the estimated amounts. Our methodology as described permits adjustments to any loss factor used in the computation of the general allowance in the event that, in management's judgment, significant factors which affect the collectability of the portfolio as of the evaluation date are not reflected in the loss factors. By assessing the probable incurred losses inherent in the loan portfolio on a quarterly basis, we are able to adjust specific and inherent loss estimates based upon any more recent information that has become available.

The following table details activity in the allowance for loan losses by portfolio segment for the three and six month periods ended June 30, 2016 and 2015, respectively. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other segments.

	Three Months Ended June 30, 2016			
	Commercial	Mortgage	Consumer	Total
Allowance for loan losses:				
Balance, beginning of period	$7,208	$ 2,629	$ 2,833	$12,670
Provision charged (credited) to expense	(49)	23	176	150
Losses charged off	(29)	(64)	(200)	(293)
Recoveries	2	1	74	77
Balance, end of period	$7,132	$ 2,589	$ 2,883	$12,604

	Six Months Ended June 30, 2016			
	Commercial	Mortgage	Consumer	Total
Allowance for loan losses:				
Balance, beginning of year	$7,090	$ 2,683	$ 2,868	$12,641
Provision charged to expense	71	85	194	350
Losses charged off	(33)	(184)	(338)	(555)
Recoveries	4	5	159	168
Balance, end of period	$7,132	$ 2,589	$ 2,883	$12,604

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	Three Months Ended June 30, 2015			
	Commercial	Mortgage	Consumer	Total
Allowance for loan losses:				
Balance, beginning of period	$6,894	$ 3,567	$ 2,756	$13,217
Provision charged (credited) to expense	(201)	48	153	-
Losses charged off	-	(297)	(205)	(502)
Recoveries	132	-	59	191
Balance, end of period	$6,825	$ 3,318	$ 2,763	$12,906

	Six Months Ended June 30, 2015			
	Commercial	Mortgage	Consumer	Total
Allowance for loan losses:				
Balance, beginning of year	$7,085	$ 3,471	$ 2,612	$13,168
Provision charged (credited) to expense	(597)	236	361	-
Losses charged off	-	(390)	(322)	(712)
Recoveries	337	1	112	450
Balance, end of period	$6,825	$ 3,318	$ 2,763	$12,906

The following tables provide a breakdown of the allowance for loans losses and loan portfolio balances by segment as of June 30, 2016 and 2015, and December 31, 2015.

	June 30, 2016			
	Commercial	Mortgage	Consumer	Total
Allowance balances				
Individually evaluated for impairment	$100	$-	$-	$100
Collectively evaluated for impairment	7,032	2,589	2,883	12,504
Total allowance for loan losses	$7,132	$2,589	$2,883	$12,604
Loan balances				
Individually evaluated for impairment	$4,359	$1,126	$-	$5,485
Collectively evaluated for impairment	396,225	484,122	227,973	1,108,320
Gross loans	$400,584	$485,248	$227,973	$1,113,805

	June 30, 2015			
	Commercial	Mortgage	Consumer	Total
Allowance balances				
Individually evaluated for impairment	$-	$-	$-	$-
Collectively evaluated for impairment	6,825	3,318	2,763	12,906
Total allowance for loan losses	$6,825	$3,318	$2,763	$12,906
Loan balances				
Individually evaluated for impairment	$6,042	$1,603	$-	$7,645
Collectively evaluated for impairment	329,305	503,586	202,429	1,035,320
Gross loans	$335,347	$505,189	$202,429	$1,042,965

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	December 31, 2015			
	Commercial	Mortgage	Consumer	Total
Allowance balances				
Individually evaluated for impairment	$100	$-	$-	$100
Collectively evaluated for impairment	6,990	2,683	2,868	12,541
Total allowance for loan losses	$7,090	$2,683	$2,868	$12,641
Loan balances				
Individually evaluated for impairment	$5,093	$1,126	$481	$6,700
Collectively evaluated for impairment	370,589	490,325	215,781	1,076,695
Gross loans	$375,682	$491,451	$216,262	$1,083,395

Management’s general practice is to proactively charge down loans individually evaluated for impairment to the fair value of the underlying collateral.

For all loan portfolio segments except consumer real estate and other consumer loans, the Company promptly charges-off loans, or portions thereof, when available information confirms that specific loans are uncollectible based on information that includes, but is not limited to, (1) the deteriorating financial condition of the borrower, (2) declining collateral values, and/or (3) legal action, including bankruptcy, that impairs the borrower’s ability to adequately meet its obligations. For impaired loans that are considered to be solely collateral dependent, a partial charge-off is recorded when a loss has been confirmed by an updated appraisal or other appropriate valuation of the collateral.

The Company charges-off consumer real estate and other consumer loans, or portions thereof, when the Company reasonably determines the amount of the loss. The Company adheres to timeframes established by applicable regulatory guidance which provides for the charge-down of 1-4 family first and junior lien mortgages to the net realizable value less costs to sell when the loan is 180 days past due, charge-off of unsecured open-end loans when the loan is 180 days past due, and charge-down to the net realizable value when other secured loans are 120 days past due. Loans at these respective delinquency thresholds for which the Company can clearly document that the loan is both well-secured and in the process of collection, such that collection will occur regardless of delinquency status, need not be charged-off.

Troubled Debt Restructurings

Certain categories of impaired loans include loans that have been modified in a troubled debt restructuring; that involves granting economic concessions to borrowers who have experienced financial difficulties. These concessions typically result from our loss mitigation activities and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance or other actions. Modifications of terms for our loans and their inclusion as troubled debt restructurings are based on individual facts and circumstances.

When we modify loans in a troubled debt restructuring, we evaluate any possible impairment similar to other impaired loans based on the present value of expected future cash flows, discounted at the contractual interest rate of the original loan agreement, or we use the current fair value of the collateral, less selling costs for collateral dependent loans. If we determine that the value of the modified loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), impairment is recognized through a specific reserve or a charge-off to the allowance.

Loans retain their accrual status at the time of their modification. As a result, if a loan is on nonaccrual at the time it is modified, it stays as nonaccrual until a period of satisfactory performance, generally six months, is obtained. If a loan is on accrual at the time of the modification, the loan is evaluated to determine if the collection of principal and interest is reasonably assured and generally stays on accrual.

At June 30, 2016, the Company had a number of loans that were modified in troubled debt restructurings. The modification of terms of such loans included one or a combination of the following: an extension of maturity, a reduction of the stated interest rate or a permanent reduction of the recorded investment in the loan.

The following tables describe troubled debts restructured during the three and six month periods ended June 30, 2016 and 2015:

	Three Months Ended June 30, 2016			Three Months Ended June 30, 2015		
	No. of Loans	Pre-Modification Recorded Balance	Post-Modification Recorded Balance	No. of Loans	Pre-Modification Recorded Balance	Post-Modification Recorded Balance
Real estate						
Commercial	-	$ -	$ -	1	$ 820	$ 820
Consumer closed end first mortgage	4	134	141	2	86	85
Other loans						
Consumer loans						
Boat/RVs	1	8	8	-	-	-

	Six Months Ended June 30, 2016			Six Months Ended June 30, 2015		
	No. of Loans	Pre-Modification Recorded Balance	Post-Modification Recorded Balance	No. of Loans	Pre-Modification Recorded Balance	Post-Modification Recorded Balance
Real estate						
Commercial	-	$ -	$ -	3	$ 1,992	$ 1,990
Construction and development	-	-	-	1	155	134
Consumer closed end first mortgage	9	554	569	5	242	239
Other loans						
Consumer loans						
Auto	1	4	4	-	-	-
Boat/RVs	3	56	56	-	-	-
Commercial and industrial	1	83	83	1	88	83

The impact on the allowance for loan losses was insignificant as a result of these modifications.

Newly restructured loans by type for the three and six months ended June 30, 2016 and 2015 are as follows:

	Three Months Ended June 30, 2016			
	Rate	Term	Combination	Total Modification
Real Estate				

Consumer closed end first mortgage	$-	$47	$ 94	$ 141
Other loans				
Consumer loans				
Boat/RVs	-	-	8	8

	Three Months Ended June 30, 2015			
	Rate	Term	Combination	Total Modification
Real Estate				
Commercial	$-	$820	$ -	$ 820
Consumer closed end first mortgage	-	-	85	85

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	Six Months Ended June 30, 2016			
	Rate	Term	Combination	Total Modification
Real Estate				
Consumer closed end first mortgage	$-	$47	$ 522	$ 569
Other loans				
Consumer loans				
Auto	-	-	4	4
Boat/RVs	-	48	8	56
Commercial and industrial	-	83	-	83

	Six Months Ended June 30, 2015			
	Rate	Term	Combination	Total Modification
Real Estate				
Commercial	$-	$1,990	$ -	$ 1,990
Construction and development	-	-	134	134
Consumer closed end first mortgage	-	-	239	239
Commercial and industrial	-	83	-	83

There were no defaults on loans modified as troubled debt restructurings made in the three and six months ended June 30, 2016 or 2015. Defaults are defined as any loans that become 90 days past due.

At June 30, 2016, the Company held residential real estate held for sale as a result of foreclosure totaling $775,000 and real estate in the process of foreclosure of $1.5 million.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operation

The following should be read in conjunction with the Management's Discussion and Analysis in Item 7 of the Company's Annual Report on Form 10-K for the year ended December 31, 2015, which was filed with the SEC on March 15, 2016.

MutualFirst is a Maryland corporation and a bank holding company headquartered in Muncie, Indiana, with operations in Allen, Delaware, Elkhart, Grant, Kosciusko, Randolph, St. Joseph and Wabash counties in Indiana. It owns MutualBank, an Indiana commercial bank with 31 bank branches in Indiana, trust offices in Fishers and Crawfordsville, Indiana and a loan origination office in New Buffalo, Michigan. MutualBank's wholly owned subsidiary, Summit Service Corp, owns Summit Mortgage, a mortgage banking company located in Ft. Wayne, Indiana. The Company is subject to examination, supervision and regulation by the FRB, and the Bank is subject to regulation, supervision and examination by the IDFI and the FDIC.

Our principal business consists of attracting retail and commercial deposits from the general public and businesses, including some brokered deposits, and investing those funds primarily in loans secured by consumer closed end first mortgages and consumer open end and junior liens on owner-occupied, one- to four-family residences, a variety of other consumer loans, loans secured by commercial real estate, commercial construction and development and commercial and industrial loans. Funds not invested in loans generally are invested in investment securities, including mortgage-backed, mortgage-related securities, and municipals. We also obtain funds from FHLB advances and other borrowings.

Our results of operations depend primarily on the level of our net interest income, which is the difference between interest income on interest-earning assets, such as loans and investment securities, and interest expense on interest-bearing liabilities, primarily deposits and borrowings. The structure of our interest-earning assets versus the structure of interest-bearing liabilities, along with the shape of the yield curve, has a direct impact on our net interest income. Historically, our interest-earning assets have been longer term in nature (i.e., fixed-rate mortgage loans) and interest-bearing liabilities have been shorter term (i.e., certificates of deposit, regular savings accounts, etc.). This structure would impact net interest income favorably in a decreasing rate environment, assuming a normally shaped yield curve, as the rates on interest-bearing liabilities would decrease more rapidly than rates on interest-earning assets. Conversely, in an increasing rate environment, assuming a normally shaped yield curve, net interest income would be impacted unfavorably as rates on interest-earning assets would increase at a slower rate than rates on interest-bearing liabilities.

Second Quarter Highlights. At June 30, 2016, we had $1.5 billion in assets, $1.1 billion in net loans, $1.1 billion in deposits and $141.6 million in stockholders' equity. The Company's total risk-based capital ratio at June 30, 2016 was 13.4%, exceeding the 10.0% requirement for a well-capitalized institution. Tangible common equity, as a percentage of tangible assets, increased to 9.2% as of June 30, 2016 compared to 9.1% and 8.9% at December 31, 2015 and June 30, 2015, respectively. For the quarter ended June 30, 2016, net income was $4.2 million, or $0.55 diluted earnings per common share, compared with net income of $3.2 million, or $0.43 diluted earnings per common share for the quarter ended June 30, 2015.

Financial highlights for the three and the six months ended June 30, 2016 included:

- Commercial loan balances increased $24.9 million, or 13.3% on an annualized basis, and non-real estate consumer loan balances increased $12.1 million, or 16.7% on an annualized basis, in the first six months of 2016.
- Asset quality improved as non-performing loans to total loans were 0.47% as of June 30, 2016 compared to 0.66% as of December 31, 2015 and non-performing assets to total assets were 0.46% as of June 30, 2016 compared to 0.65% as of December 31, 2015.
- Core deposits increased $14.7 million, or 4.0% on an annualized basis in the first six months of 2016.
- Tangible common equity to total assets was 9.23% and tangible book value per common share was $19.01 as of June 30, 2016 compared to tangible common equity to total assets of 9.11% and tangible book value per common share of $18.11 as of December 31, 2015.
- Net interest income for the second quarter of 2016 increased by $225,000 on a linked quarter basis and increased by $447,000 compared to the second quarter of 2015.
- Provision for loan losses decreased $50,000 in the second quarter of 2016 compared to the linked quarter, as asset quality continued to improve. Provision for loan losses increased $150,000 compared to the second quarter of 2015 due in part to both the increase in the loan portfolio in combination with the change in loan mix.
- Net interest margin was 3.16% for the second quarter of 2016 compared to 3.13% in the first quarter of 2016 and 3.18% in the second quarter of 2015. Tax equivalent net interest margin was 3.25% for the second quarter of 2016 compared to 3.22% in the first quarter of 2016 and 3.24% in the second quarter of 2015.
- Non-interest income in the second quarter of 2016 increased by $1.9 million on a linked quarter basis and by $1.5 million when compared to the second quarter of 2015.
- Non-interest expense decreased in the second quarter of 2016 by $176,000 on a linked quarter basis and increased by $867,000 when compared to the second quarter of 2015.
- The efficiency ratio improved to 66.6% in the second quarter 2016 compared to 69.6% in the second quarter of 2015.

The Management's Discussion and Analysis in Item 7 of the Company's Annual Report on Form 10-K for the year ended December 31, 2015, contains a summary of our management's strategic plan for 2015-2019. The financial highlights of our strategic progress during the quarter include:

- Growing commercial and non-real estate consumer lending by $24.7 million in the second quarter and $37.0 in the first half of 2016.
- Increasing core deposits to total deposits to 68.9%, from 67.9% at year-end 2015.

- Commission income from wealth and investment services increased $262,000, or 22.9%, during the second quarter 2016 compared to the same period in 2015 and increased $240,000, or 10.6%, during the first half of 2016 compared to the same period in 2015.

Critical Accounting Policies

Note 1 to the Consolidated Financial Statements in Item 8 of the Form 10-K for the year ended December 31, 2015 contains a summary of the Company's significant accounting policies. Certain of these policies are important to the portrayal of the Company's financial condition, since they require management to make difficult, complex or subjective judgments, some of which may relate to matters that are inherently uncertain. Management believes that its critical accounting policies include determining the allowance for loan losses, the valuation of foreclosed assets, mortgage servicing rights, valuation of intangible assets and securities, deferred tax asset and income tax accounting.

The determination of the adequacy of the allowance for loan losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. A worsening or protracted economic decline would increase the likelihood of additional losses due to credit and market risk and could create the need for additional loss reserves.

Allowance for Loan Losses. The allowance for loan losses is a significant estimate that can and does change based on management's assumptions about specific borrowers and current general economic and business conditions, among other factors. Management reviews the adequacy of the allowance for loan losses on at least a quarterly basis. The evaluation by management includes consideration of past loss experience, changes in the composition of the loan portfolio, the current condition and amount of loans outstanding, identified problem loans and the probability of collecting all amounts due.

Foreclosed Assets. Foreclosed assets are carried at the lower of cost or fair value less estimated selling costs. Management estimates the fair value of the properties based on current appraisal information. Fair value estimates are particularly susceptible to significant changes in the economic environment, market conditions, and real estate market. A worsening or protracted economic decline would increase the likelihood of a decline in property values and could create the need to write down the properties through current operations.

Mortgage Servicing Rights. Mortgage servicing rights ("MSRs") associated with loans originated and sold, where servicing is retained, are capitalized and included in other assets in the consolidated balance sheet. The value of the capitalized servicing rights represents the fair value of the right to service loans in the portfolio. Critical accounting policies for MSRs relate to the initial valuation and subsequent impairment tests. The methodology used to determine the valuation of MSRs requires the development and use of a number of estimates, including anticipated principal amortization and prepayments of that principal balance. Events that may significantly affect the estimates used are changes in interest rates, mortgage loan prepayment speeds and the payment performance of the underlying loans. The carrying value of the MSRs is periodically reviewed for impairment based on a determination of fair value. For purposes of measuring impairment, the servicing rights are compared to a valuation prepared based on a discounted cash flow methodology, utilizing current prepayment speeds and discount rates. Impairment, if any, is recognized through a valuation allowance and is recorded as a reduction in loan servicing fee income.

Goodwill and Intangible Assets. MutualFirst periodically assesses the impairment of its goodwill and the recoverability of its core deposit intangible. Impairment is the condition that exists when the carrying amount exceeds its implied fair value. If actual external conditions and future operating results differ from MutualFirst's judgments, impairment and/or increased amortization charges may be necessary to reduce the carrying value of these assets to the appropriate value.

Securities. Under FASB Codification Topic 320 (ASC 320), Investments-Debt and Equity Securities, investment securities must be classified as held-to-maturity, available-for-sale or trading. Management determines the appropriate classification at the time of purchase. The classification of securities is significant since it directly impacts the accounting for unrealized gains and losses on securities. Debt securities are classified as held-to-maturity and carried at amortized cost when management has the positive intent and the Company has the ability to hold the securities to maturity. Securities not classified as held-to-maturity are classified as available-for-sale and are carried at fair value, with the unrealized holding gains and losses, net of tax, reported in other comprehensive income and do not affect earnings until realized.

The fair values of the Company's securities are generally determined by reference to quoted prices from reliable independent sources utilizing observable inputs. Certain of the Company's fair values of securities are determined using models whose significant value drivers or assumptions are unobservable and are significant to the fair value of the securities. These models are utilized when quoted prices are not available for certain securities or in markets where trading activity has slowed or ceased. When quoted prices are not available and are not provided by third party pricing services, management judgment is necessary to determine fair value. As such, fair value is determined using discounted cash flow analysis models, incorporating default rates, estimation of prepayment characteristics and implied volatilities.

The Company evaluates all securities on a quarterly basis, and more frequently when economic conditions warrant additional evaluations, for determining if an other-than-temporary impairment ("OTTI") exists pursuant to guidelines established in ASC 320. In evaluating the possible impairment of securities, consideration is given to the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and the ability and intent of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. In analyzing an issuer's financial condition, the Company may consider whether the securities are issued by the federal government or its agencies or government sponsored agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition.

If management determines that an investment experienced an OTTI, management must then determine the amount of the OTTI to be recognized in earnings. If management does not intend to sell the security and it is more likely than not that the Company will not be required to sell the security before recovery of its amortized cost basis less any current period loss, the OTTI will be separated into the amount representing the credit loss and the amount related to all other factors. The amount of OTTI related to the credit loss is determined based on the present value of cash flows expected to be collected and is recognized in earnings. The amount of the OTTI related to other factors will be recognized in other comprehensive income, net of applicable taxes. The previous amortized cost basis less the OTTI recognized in earnings will become the new amortized cost basis of the investment. If management intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current period credit loss, the OTTI will be recognized in earnings equal to the entire difference between the investment's amortized cost basis and its fair value at the balance sheet date. Any subsequent recoveries related to the value of these securities are recorded as an unrealized gain (as other comprehensive income (loss) in stockholders' equity) and not recognized in income until the security is ultimately sold.

The Company from time to time may dispose of an impaired security in response to asset/liability management decisions, future market movements, business plan changes, or if the net proceeds can be reinvested at a rate of return that is expected to recover the loss within a reasonable period of time.

Deferred Tax Asset. The Company has evaluated its deferred tax asset to determine if it is more likely than not that the asset will be utilized in the future. The Company's most recent evaluation has determined that, except for the amounts represented by the valuation allowance in Note 14 to the Consolidated Financial Statements in Item 8 of the Form 10-K for the year ended December 31, 2015, the Company will more likely than not be able to utilize the remaining deferred tax asset. As of year-end 2015, the Company had generated average annual positive pre-tax pre-provision earnings of $16.1 million, or 1.1% of pre-tax pre-provision ROA over the previous five years. This level of earnings, if maintained in the future, would be sufficient to utilize portions of the operating losses, tax credit carryforwards and temporary tax differences over the allowable periods. The analysis as of June 30, 2016, supports no additional valuation reserve is needed.

The valuation allowances established are the result of net operating losses for state franchise tax purposes totaling $29.8 million and capital losses realized on the sale of investment securities as well as the recognition of other than temporary impairment on investment securities where the loss, while recognized for financial statement purposes, has not yet been realized.

At the end of 2015, the Company had $139,000 in capital losses, a decrease of $5,000 in capital losses from 2014, as capital gains from the sale of available for sale securities were generated. The Company has avoided and will continue to avoid taking any book tax benefit on future capital losses without capital gains to offset the current capital losses. See Note 14 to the Consolidated Financial Statements in Item 8 of the Form 10-K for the year ended December 31, 2015.

Income Tax Accounting. We file a consolidated federal income tax return. The provision for income taxes is based upon income in our consolidated financial statements, rather than amounts reported on our income tax return. Deferred tax assets and liabilities are recognized for future tax consequences attributable to 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 of a change in tax rates on our deferred tax assets and liabilities is recognized as income or expense in the period that includes the enactment date.

Forward-Looking Statements

This Form 10-Q contains and our future filings with the SEC, Company press releases, other public pronouncements, stockholder communications and oral statements made by or with the approval of an authorized executive officer, will contain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. You can identify these forward-looking statements through our use of words such as “may,” “will,” “anticipate,” “assume,” “should “indicate,” “would,” “believe,” “contemplate,” “expect,” “estimate,” “continue,” “plan,” “project,” “could,” “intend,” “target” words and expressions of the future. These forward-looking statements include, but are not limited to: (i) statements of our goals, intentions and expectations; (ii) statements regarding our business plans, prospects, growth and operating strategies; (iii) statements regarding the asset quality of our loan and investment portfolios; and (iv) estimates of our risks and future costs and benefits. These forward-looking statements are based on current beliefs and expectations of our management and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change. The Company does not undertake and specifically declines any obligation to publicly release the result of any revisions that may be made to any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of unanticipated events.

The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements: (i) the credit risks of lending activities, including changes in the level and trend of loan delinquencies and write-offs and changes in our allowance for loan losses and provision for loan losses that may be impacted by deterioration in the housing and commercial real estate markets; (ii) changes in general economic conditions, either nationally or in our market areas; (iii) changes in the levels of general interest rates and the relative differences between short- and long-term interest rates, deposit interest rates, our net interest margin and funding sources; (v) fluctuations in the demand for loans, the number of unsold homes, land and other properties and fluctuations in real estate values in our market areas; (vi) decreases in the secondary market for the sale of loans that we originate; (vii) results of examinations of us by the IDFI, FDIC, FRB or other regulatory authorities, including the possibility that any such regulatory authority may, among other things, require us to increase our reserve for loan losses, write-down assets, change our regulatory capital position or affect our ability to borrow funds or maintain or increase deposits, which could adversely affect our liquidity and earnings; (viii) legislative or regulatory changes that adversely affect our business including the effect of Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act"), changes in regulatory policies and principles, or the interpretation of regulatory capital or other rules, including changes that increase our capital requirements; (ix) our ability to attract and retain deposits; (x) increases in premiums for deposit insurance; (xi) management's assumptions in determining the adequacy of the allowance for loan losses; (xii) our ability to control operating costs and expenses; (xiii) the use of estimates in determining fair value of certain of our assets, which estimates may prove to be incorrect and result in significant declines in valuation; (xiv) difficulties in reducing risks associated with the loans on our balance sheet; (xv) staffing fluctuations in response to product demand or the implementation of corporate strategies that affect our workforce and potential associated charges; (xvi) a failure or security breach in the computer systems on which we depend; (xvii) our ability to retain key members of our senior management team; (xviii) costs and effects of litigation, including settlements and judgments; (xix) our ability to successfully integrate into our operations any assets, liabilities, customers, systems, and management personnel we may in the future acquire and our ability to realize related revenue synergies and cost savings within expected time frames or at all and any goodwill charges related thereto; (xx) increased competitive pressures among financial services companies; (xxi) changes in consumer spending, borrowing and savings habits; (xxii) the availability of resources to address changes in laws, rules, or regulations or to respond to regulatory actions; (xxiii) adverse changes in the securities markets; (xxiv) inability of key third-party providers to perform their obligations to us; (xv) changes in accounting policies and practices, as may be adopted by the financial institution regulatory agencies, the Public Company Accounting Oversight Board or the Financial Accounting Standards Board; and (xvi) other economic, competitive, governmental, regulatory, and technological factors affecting our operations, pricing, products and services and the other risks described elsewhere in this report.

The Company wishes to advise readers that these factors could affect the Company's financial performance and could cause the Company's actual results for future periods to differ materially from any opinions or statements expressed with respect to future periods in any current statements.

Financial Condition

General. Total assets at June 30, 2016 were $1.5 billion, reflecting a $32.2 million increase since December 31, 2015, primarily as a result of a $26.6 million increase in net loans and a $12.6 million increase in cash and cash equivalents, partially offset by a $9.8 million decrease in the investment securities. Average interest-earning assets increased $47.4 million, or 3.5%, to $1.4 billion for the six months ended June 30, 2016 compared to the year ended December 31, 2015, reflecting an increase in the average loan portfolio of $46.7 million. Average interest-bearing liabilities increased by $26.1 million, or 2.3% to $1.2 billion at June 30, 2016 reflecting an increase in borrowings partially offset by a decrease in average certificates of deposit. Average stockholders' equity increased by $8.0 million, or 6.1%, during the six months ended June 30, 2016 compared the year-ended December 31, 2015.

Loans. Our gross loan portfolio, excluding loans held for sale, increased $30.4 million at June 30, 2016 to $1.1 billion. The following table reflects the changes in the gross amount of loans, excluding loans held for sale, by type during the three month period:

	June 30, 2016	December 31, 2015	Amount Change	Percent Change
Real estate				
Commercial	$262,045	$ 236,895	$25,150	10.62 %
Commercial construction and development	18,536	15,744	2,792	17.73
Consumer closed end first mortgage	485,248	491,451	(6,203)	(1.26)
Consumer open end and junior liens	70,557	70,990	(433)	(0.61)
Total real estate loans	836,386	815,080	21,306	2.61
Consumer loans				
Auto	16,610	15,480	1,130	7.30
Boat/RV	135,058	123,621	11,437	9.25
Other	5,748	6,171	(423)	(6.85)
Total consumer other	157,416	145,272	12,144	8.36
Commercial and industrial	120,003	123,043	(3,040)	(2.47)
Total other loans	277,419	268,315	9,104	3.39
Total Gross Loans	$1,113,805	$ 1,083,395	$30,410	2.81 %

The Bank's strategy to increase commercial and consumer loans remains a primary focus as we continued to see growth in these areas during the first half of 2016 as commercial and non-real estate consumer loans grew by $37.0 million. We continue to seek to provide sound commercial borrowers opportunities for new loans to meet their growing demands, refinance loans currently served by other financial institutions and build relationships with commercial clients in our footprint. The increase in the commercial and other consumer portfolios was partially offset by a $6.6 million decrease in the consumer real estate portfolios during the period. Lower rates have allowed consumers to refinance their mortgage loans. The loan sale volume outpaced production during the six months which hampered consumer real estate loan growth. The Bank continues to sell longer term fixed-rate mortgage loans to reduce related interest rate risk.

Delinquencies and Non-performing Assets. As of June 30, 2016, our total loans delinquent 30-to-89 days were $12.1 million or 1.1% of total loans, up slightly from $12.0 million or 1.1% of total loans at the end of 2015.

At June 30, 2016, our non-performing assets totaled $7.0 million or 0.5% of total assets, compared to $9.6 million or 0.7% of total assets at December 31, 2015. This $2.6 million, or 27.5% decrease was primarily due to a reduction in non-performing consumer closed end first mortgage and commercial real estate loans. These decreases are mostly due to sales of foreclosed real estate, and payoffs of previous non-performing loans. The table below sets forth the amounts and categories of non-performing assets at the dates indicated.

	June 30, 2016	December 31, 2015	Amount Change	Percent Change
Non-accruing loans	$ 4,859	$ 6,904	$ (2,045)	(29.62)%
Accruing loans delinquent 90 days	387	267	120	44.94
Foreclosed assets	1,734	2,455	(721)	(29.37)
Total	$ 6,980	$ 9,626	$ (2,646)	(27.49)%

The Bank continues to diligently monitor and write down loans that appear to have irreversible weakness. The Bank works to ensure possible problem loans have been identified and steps have been taken to reduce loss by restructuring loans to improve cash flow or by increasing collateral. In addition to the decrease in non-performing assets, the Company has seen improvement during the first half of 2016 in total classified assets. Total classified assets decreased by 16.6% from $17.5 million at December 31, 2015 to $14.6 million at June 30, 2016 due to improvements in the economy in the local communities we serve.

At June 30, 2016, foreclosed real estate totaled $1.3 million. The Bank has seen a decrease in this area as overall real estate owned sales volumes are up and the number of foreclosures is down. At June 30, 2016, the Bank had 16 residential properties with a book value of $775,000. One commercial construction and development property accounts for 33.7% of the total REO balance. As of June 30, 2016, the Bank also held $451,000 in other repossessed assets, such as autos, boats, RVs and horse trailers.

Allowance for Loan Losses. Allowance for loan losses was constant at $12.6 million as of June 30, 2016 compared to December 31, 2015. Net charge-offs in the first half of 2016 were $387,000, or 0.07% of total loans on an annualized basis, compared to $262,000, or 0.05% of total loans on an annualized basis in the first half of 2015. The allowance for loan losses to non-performing loans as of June 30, 2016 was 240.3% compared to 176.3% as of December 31, 2015. The allowance for loan losses to total loans as of June 30, 2016 was 1.14% compared to 1.17% as of December 31, 2015. Non-performing loans to total loans at June 30, 2016 were 0.47% compared to 0.66% at December 31, 2015. Non-performing assets to total assets were 0.46% at June 30, 2016 compared to 0.65% at December 31, 2015.

Deposits. Deposits increased by $5.1 million in the first half of 2016. The increase in deposits was a result of an increase in core deposits of $14.7 million and was partially offset by a decline of $9.6 million in certificates of deposit. Core deposits increased to 69% of the Bank's total deposits as of June 30, 2016 compared to 68% as of December 31, 2015.

	At June 30, 2016			December 31, 2015		
	Amount	Weighted Average Rate		Amount	Weighted Average Rate	
Type of Account:						
Non-interest Checking	$182,477	0.00	%	$179,542	0.00	%
Interest-bearing NOW	266,127	0.23		267,089	0.23	
Savings	134,579	0.01		131,578	0.01	
Money Market	172,290	0.21		162,551	0.20	
Certificates of Deposit	341,028	1.19		350,622	1.14	
Total	$1,096,501	0.46	%	$1,091,382	0.45	%

Borrowings. Total borrowings increased to $252.9 million at June 30, 2016, up $17.8 million, or 7.6%, since year-end 2015 primarily due to a $18.2 million increase in FHLB advances. This increase was primarily due to the $30.4 million growth in loans during the period. Other borrowings, consisting of a bank loan and a subordinated debenture, decreased $358,000 to $9.1 million at June 30, 2016 due to regular loan payments.

The Company borrowed $7.6 million from First Tennessee Bank, N.A. to refinance existing long-term debt. The loan was originated at a variable rate of LIBOR plus 2.80%; however the Company entered into an interest rate swap that fixed the rate of the note at 3.915% for its term. The balance of the loan at June 30, 2016 was $4.9 million and it matures in December 2017.

The Company acquired $5.0 million of issuer trust preferred securities in the 2008 acquisition of MFB Corp., which had a net balance of $4.2 million at June 30, 2016 due to the purchase accounting adjustment in the acquisition. These securities mature 30 years from the date of issuance, or September 15, 2035. The securities bear a rate of interest of the prevailing three-month LIBOR rate plus 170 basis points. The Company has the right to redeem the trust preferred securities, in whole or in part, without penalty.

Stockholders' Equity. Stockholders' equity was $141.6 million at June 30, 2016, an increase of $4.6 million from December 31, 2015. The increase was primarily due to net income available to common shareholders of $6.5 million, an increase in accumulated other comprehensive income of $3.3 million and an increase of $976,000 due to exercises of stock options. These increases were partially offset by stock repurchases of $4.4 million, or 175,428 shares repurchased and common stock dividends of $2.1 million for the first half of 2016. The Company's tangible book value per common share as of June 30, 2016 increased to $19.01 compared to $18.11 as of December 31, 2015 and the tangible common equity ratio increased to 9.23% as of June 30, 2016 compared to 9.11% as of December 31, 2015. MFSF's and the Bank's risk-based capital ratios were well in excess of "well-capitalized" levels as defined by all regulatory standards as of June 30, 2016.

Comparison of Results of Operations for the Three Months Ended June 30, 2016 and 2015.

General. Net income for the three months ended June 30, 2016 was $4.2 million, or $0.55 diluted earnings per common share compared to net income of $3.2 million, or $0.43 diluted earnings per common share for the three months ended June 30, 2015. Annualized return on average assets was 1.10% and annualized return on average tangible common equity was 12.01% for the second quarter of 2016 compared to 0.90% and 10.04% respectively, for the same period of last year.

Net Interest Margin and Average Balance Sheet. The following table presents the Corporation's average balance sheet, interest income/interest expense, and the average rate as a percent of average earning assets for the periods indicated. All average balances are daily average balances. Non-accruing loans have been included in the table as loans carrying a zero yield.

	Three Months Ended June 30, 2016			June 30, 2015		
	Average Outstanding Balance	Interest Earned/Paid	Average Yield/Rate	Average Outstanding Balance	Interest Earned/Paid	Average Yield/Rate
Interest-Earning Assets:						
Interest -bearing deposits	$28,136	$ 22	0.31 %	$18,311	$ 2	0.04 %
Investment securities, available for sale [1]:						
MBS/CMO	176,550	1,029	2.33	198,457	1,260	2.54
Other	73,245	581	3.17	62,187	432	2.78
Loans receivable	1,103,832	11,515	4.17	1,035,677	10,919	4.22
Stock in FHLB of Indianapolis	10,492	111	4.23	11,183	118	4.22
Total interest-earning assets [1]	1,392,255	13,258	3.81	1,325,815	12,731	3.84
Non-interest earning assets, net of allowance for loan losses and unrealized gain/loss	113,340			108,457		
Total assets	$1,505,595			$1,434,272		
Interest-Bearing Liabilities:						
Demand and NOW accounts	$278,588	$ 169	0.24	$265,293	$ 150	0.23
Savings deposits	137,029	4	0.01	129,309	3	0.01
Money market accounts	169,114	110	0.26	159,772	100	0.25
Certificate accounts	343,554	1,000	1.16	379,570	1,081	1.14
Total deposits	928,285	1,283	0.55	933,944	1,334	0.57
Borrowings	233,592	988	1.69	192,691	857	1.78
Total interest-bearing liabilities	1,161,877	2,271	0.78	1,126,635	2,191	0.78
Non-interest bearing deposit accounts	187,223			161,272		
Other liabilities	15,610			15,454		
Total liabilities	1,364,710			1,303,361		
Stockholders' equity	140,885			130,911		
Total liabilities and stockholders' equity	$1,505,595			$1,434,272		
Net earning assets	$230,378			$199,180		
Net interest income		$ 10,987			$ 10,540	
Net interest rate spread [3]			3.03 %			3.06 %
Net interest margin [3]			3.16 %			3.18 %
Net interest margin, tax equivalent [2] [3]			3.25 %			3.24 %

Average interest-earning assets to average interest-bearing liabilities	119.83	%	117.68	%

[1] Average balance of securities is computed based on the average of the historical amortized cost balances without the effects of the fair value adjustments.

[2] Tax equivalent margin is calculated by taking non-taxable interest and grossing up by 34% applicable tax rate.

[3] Ratios for the three month periods have been annualized.

Interest Income. Total interest income increased $527,000, or 4.1%, to $13.3. million during the three months ended June 30, 2016 from $12.7 million during the same period in 2015. The increase was a result of an increase of $66.4 million in average earning assets due to an increase in the average loan portfolio of $68.2 million partially offset by a decrease of three basis points in the average interest rate for the quarter ended June 30, 2016 compared to the same period in 2015.

Interest Expense. Interest expense increased $80,000, or 3.7%, to $2.3 million during the three months ended June 30, 2016. The primary reason for this increase was an increase of $35.2 million in interest-bearing liabilities. This was primarily due to an increase in average borrowings of $40.9 million which was partially offset by a decrease in average deposits of $5.7 million. The average rate paid for interest-bearing liabilities was unchanged for the three months ended June 30, 2016 compared to the same period in 2015.

Net Interest Income and Net Interest Margin. Net interest income before the provision for loan losses increased $447,000 for the quarter ended June 30, 2016 compared to the same period in 2015. The increase in net interest income was primarily a result of an increase of $66.4 million in average interest earning assets, due to an increase of $68.2 million in average loans. This increase was partially offset by a 2 basis point decrease in net interest margin to 3.16%, while the tax equivalent margin increased 1 basis point. The decrease in the margin was the result of average interest earning assets, primarily loans, repricing downward faster than average interest bearing liabilities. On a linked quarter basis, net interest income before the provision for loan losses increased $225,000 as net interest margin increased by 3 basis points and average interest earning assets increased by $16.4 million primarily due to increases in the average loan portfolio. For more information on our asset/liability management especially as it relates to interest rate risk, see "Item 7A - Quantitative and Qualitative Disclosures About Market Risk" in the Form 10-K for the year ended December 31, 2015.

Provision for Loan Losses. Provision for loan losses in the second quarter of 2016 was $150,000 compared to no provision during last year's comparable period. The increase was due to management's ongoing evaluation of the adequacy of the allowance for loan losses, which was partially attributable to an increasing loan portfolio and a low, but consistent level in net charge offs of $216,000, or 0.08% of loans on an annualized basis, in the second quarter of 2016 compared to net charge offs of $311,000, or 0.12% of loans on an annualized basis, in the second quarter of 2015.

Non-Interest Income. Non-interest income increased by $1.5 million in the second quarter of 2016 compared to the same period in 2015.

	Three Months Ended June 30,		Amount	Percent
	2016	2015	Change	Change
Service fee income	$ 1,528	$ 1,464	$ 64	4.37 %
Net realized gain on sale of securities	652	126	526	417.46
Commissions	1,404	1,142	262	22.94
Net gains on sales of loans	1,407	1,121	286	25.51
Net servicing fees	78	70	8	11.43
Increase in cash surrender value of life insurance	306	313	(7)	(2.24)
Gain (loss) on sale of other real estate and repossessed assets	(188)	32	(220)	(687.50)
Other income	706	98	608	620.41
Total	$ 5,893	$ 4,366	$ 1,527	34.97 %

The increase was primarily related to an increase of other income primarily due to a gain on bank owned life insurance of $346,000 due to a death and a $200,000 gain on sale of an interest in a low income housing property. Gain on sale of securities increased as the Company took advantage of a decline in longer term interest rates to reposition approximately $17 million of the investment portfolio at a similar yield and duration to that prior to the transaction. Other increases included an increase in net gain on sale of loans due to increased mortgage loan production and better pricing compared to the second quarter of 2015 and an increase in commission income primarily driven by trust and wealth management partially due to the collection of pass-thru fees that occur periodically. These increases were partially offset by losses due to disposal of foreclosed real estate and other repossessed assets compared to a small gain on such dispositions in the same period in 2015. On a linked quarter basis, non-interest income increased $1.9 million due to the reasons previously stated along with an increase of $154,000 in service charges primarily due to increases in interchange income resulting from increased debit card activity.

Non-Interest Expense. Non-interest expenses increased $867,000, to $11.2 million, for the second quarter of 2016.

	Three Months Ended June 30, 2016	2015	Amount Change	Percent Change
Salaries and employee benefits	$ 6,660	$ 6,084	$ 576	9.47 %
Net occupancy expenses	601	515	86	16.70
Equipment expenses	484	410	74	18.05
Data processing fees	492	428	64	14.95
ATM and debit card expense	356	347	9	2.59
Deposit insurance	225	212	13	6.13
Professional fees	380	383	(3)	(0.78)
Advertising and promotion	269	378	(109)	(28.84)
Software subscriptions and publications	549	433	116	26.79
Other real estate and repossessed assets	14	87	(73)	(83.91)
Other expenses	1,210	1,096	114	10.40
Total	$ 11,240	$ 10,373	$ 867	8.36 %

Non-interest expense increased in the second quarter 2016 compared to the same period in 2015. The increase was primarily due to an increase in salaries and benefits as health insurance increased along with normal merit increases in compensation and new additions to staff as we entered into the Fort Wayne market at the end of 2015. Other increases included an increase in software subscriptions and maintenance due to investments in software and in other expenses primarily due to increases in charge-offs and fraud losses on debit cards and bad checks. On a linked quarter basis, non-interest expense decreased $176,000 partially due to a decrease in advertising expense of $158,000

Income Tax Expense. Income tax expense for the second quarter 2016 increased by $18,000 compared to the same period in 2015. The effective tax rate for the second quarter of 2016 was 24.3% compared to 29.0% in the same quarter of 2015. The decrease was related to an increase in tax free income from municipal securities in the investment portfolio and a new ongoing tax benefit from the pooled captive insurance company.

Comparison of Results of Operations for the Six Months Ended June 30, 2016 and 2015.

General. Net income available to common shareholders for the six months ended June 30, 2016 was $6.5 million, or $0.86 diluted earnings per common share compared to net income available to common shareholders of $5.7 million, or $0.76 diluted earnings per common share for the six months ended June 30, 2015. Annualized return on average assets was 0.87% and annualized return on average tangible common equity was 9.48% for the first half of 2016 compared to 0.80% and 8.98% respectively, for the same period of last year.

Net Interest Margin and Average Balance Sheet. The following table presents the Corporation's average balance sheet, interest income/interest expense, and the average rate as a percent of average earning assets for the periods indicated. All average balances are daily average balances. Non-accruing loans have been included in the table as loans carrying a zero yield.

	Six Months Ended June 30, 2016			June 30, 2015		
	Average Outstanding Balance	Interest Earned/Paid	Average Yield/Rate	Average Outstanding Balance	Interest Earned/Paid	Average Yield/Rate
Interest-Earning Assets:						
Interest -bearing deposits	$26,175	$ 42	0.32 %	$20,592	$ 9	0.09 %
Investment securities, available for sale [1]:						
MBS/CMO	182,119	2,165	2.38	200,666	2,569	2.56
Other	71,223	1,134	3.18	57,647	793	2.75
Loans receivable	1,094,047	22,735	4.16	1,028,969	21,784	4.23
Stock in FHLB of Indianapolis	10,487	216	4.12	11,574	259	4.48
Total interest-earning assets [1]	1,384,051	26,292	3.80	1,319,448	25,414	3.85
Non-interest earning assets, net of allowance for loan losses and unrealized gain/loss	114,650			108,663		
Total assets	$1,498,701			$1,428,111		
Interest-Bearing Liabilities:						
Demand and NOW accounts	$271,455	318	0.23	$260,187	290	0.22
Savings deposits	135,539	7	0.01	128,007	6	0.01
Money market accounts	166,615	218	0.26	153,873	191	0.25
Certificate accounts	349,389	2,025	1.16	388,453	2,219	1.14
Total deposits	922,998	2,568	0.56	930,520	2,706	0.58
Borrowings	235,756	1,975	1.68	191,876	1,651	1.72
Total interest-bearing liabilities	1,158,754	4,543	0.78	1,122,396	4,357	0.78
Non-interest bearing deposit accounts	184,536			160,837		
Other liabilities	15,383			15,241		
Total liabilities	1,358,673			1,298,474		
Stockholders' equity	140,028			129,637		
Total liabilities and stockholders' equity	$1,498,701			$1,428,111		
Net earning assets	$225,297			$197,052		
Net interest income		$ 21,749			$ 21,057	
Net interest rate spread [3]			3.02 %			3.08 %
Net interest margin [3]			3.14 %			3.19 %
Net interest margin, tax equivalent [2] [3]			3.24 %			3.25 %

Average interest-earning assets to average interest-bearing liabilities	119.44	%	117.56	%

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

(2) Tax equivalent margin is calculated by taking non-taxable interest and grossing up by 34% applicable tax rate.

(3) Ratios for the six month periods have been annualized.

Interest Income. Total interest income increased $878,000, or 3.5%, to $26.3 million during the six months ended June 30, 2016 from $25.4 million during the same period in 2015. The increase was a result of an increase of $64.6 million in average earning assets due to an increase in the average loan portfolio of $65.1 million partially offset by a decrease of five basis points in the average interest rate for the six months ended June 30, 2016 compared to the same period in 2015.

***Interest Expense*.** Interest expense increased $186,000, or 4.3%, to $4.5 million during the six months ended June 30, 2016. The primary reason for this increase was an increase of $36.4 million in interest-bearing liabilities. This was primarily due to an increase in average borrowings of $43.9 million which was partially offset by a decrease in average deposits of $7.5 million. The average rate paid for interest-bearing liabilities was unchanged for the six months ended June 30, 2016 compared to the same period in 2015.

Net Interest Income and Net Interest Margin. Net interest income before the provision for loan losses increased $692,000 for the first half of 2016 compared to the same period in 2015. The increase was a result of an increase of $64.6 million in average interest earning assets due to an increase in the average loan portfolio of $65.1 million. This increase was partially offset by the net interest margin decreasing to 3.14% in the first half of 2016 compared to 3.19% in the first half of 2015, while the tax equivalent net interest margin declined to 3.24% in the first half of 2016 compared to 3.25% in the comparable period in 2015. For more information on our asset/liability management especially as it relates to interest rate risk, see “Item 7A - Quantitative and Qualitative Disclosures About Market Risk” in the Form 10-K for the year ended December 31, 2015.

Provision for Loan Losses. The provision for loan losses for the first half of 2016 was $350,000 compared to no provision during last year’s comparable period. The increase was primarily due to a loan portfolio that has increased $67.7 million, or 6.5% over the last year. Net charge-offs for the first half of 2016 equaled $387,000, or 0.07% of loans on an annualized basis compared to $262,000, or 0.05% in the same period of 2015.

Non-Interest Income. Non-interest income increased by $1.5 million in the first half of 2016 compared to same period in 2015.

	Six Months Ended June 30,		Amount	Percent
	2016	2015	Change	Change
Service fee income	$ 2,902	$ 2,822	$ 80	2.83 %
Net realized gain on sale of securities	770	366	404	110.38
Commissions	2,503	2,263	240	10.61
Net gains on sales of loans	2,347	2,027	320	15.79
Net servicing fees	148	138	10	7.25
Increase in cash surrender value of life insurance	590	601	(11)	(1.83)
Loss on sale of other real estate and repossessed assets	(217)	(50)	(167)	334.00
Other income	847	216	631	292.13
Total	$ 9,890	$ 8,383	$ 1,507	17.98 %

Non-interest income for the first half of 2016 increased compared to the first half of 2015 primarily due to activity in the second quarter of 2016. These increases in non-interest income included an increase in other income primarily due to a gain on bank owned life insurance of $346,000 due to a death and a $200,000 gain on sale of an interest in a low income housing property. Gain on sale of securities increased as the Company took advantage of a decline in longer term interest rates to reposition approximately $17 million of the investment portfolio at a similar yield and duration to that prior to the transaction. Other increases included an increase in net gain on sale of loans due to increased mortgage loan production and better pricing compared to the first half of 2015 and an increase in commission income primarily driven by trust and wealth management partially due to the collection of pass-thru fees that occur periodically. These increases were partially offset by an increase in losses due to disposal of foreclosed real estate and other repossessed assets.

Non-Interest Expense. Non-interest expenses increased $1.3 million, to $22.7 million, for the first half of 2016.

	Six Months Ended June 30, 2016	2015	Amount Change	Percent Change
Salaries and employee benefits	$ 13,151	$ 12,614	$ 537	4.26 %
Net occupancy expenses	1,247	1,118	129	11.54
Equipment expenses	971	863	108	12.51
Data processing fees	981	872	109	12.50
ATM and debit card expense	736	682	54	7.92
Deposit insurance	459	444	15	3.38
Professional fees	850	913	(63)	(6.90)
Advertising and promotion	696	711	(15)	(2.11)
Software subscriptions and publications	1,029	860	169	19.65
Other real estate and repossessed assets	86	214	(128)	(59.81)
Other expenses	2,450	2,100	350	16.67
Total	$ 22,656	$ 21,391	$ 1,265	5.91 %

The increase in non-interest expense during the first half of 2016 compared to the same period in 2015 was due to increases in salaries and employee benefits as health insurance increased along with normal merit increases in compensation and new additions to staff as we entered into the Fort Wayne market at the end of 2015, other expenses increased due to increased charge-offs and fraud activity on debit cards and bad checks along with non-recurring expenses in the first quarter, occupancy and equipment expenses increased $237,000 due to a new office in Fort Wayne, Indiana and an update to an existing location, software subscriptions and maintenance increased due to investments in software, and data processing expenses increased primarily due to increased services being provided. These increases were partially offset by a decrease in foreclosed real estate and repossessed assets expense.

Income Tax Expense. Income tax expense for the first half of 2016 decreased by $240,000 compared to the same period in 2015. The effective tax rate for the first six months of 2016 was 24.5% compared to 29.2% in the same period of 2015. The decrease was related to an increase in tax free income from municipal securities in the investment portfolio and a new ongoing tax benefit from the pooled captive insurance company.

Liquidity

We are required to have enough cash and investments that qualify as liquid assets in order to maintain sufficient liquidity to ensure safe and sound operation. Liquidity may increase or decrease depending upon the availability of funds and comparative yields on investments in relation to the return on loans. Historically, we have maintained liquid assets above levels believed to be adequate to meet the requirements of normal operations, including potential deposit outflows. Cash flow projections are regularly reviewed and updated to assure that adequate liquidity is maintained.

Liquidity management involves the matching of cash flow requirements of customers, who may be either depositors desiring to withdraw funds or borrowers needing assurance that sufficient funds will be available to meet their credit needs and the ability of the Company to manage those requirements. The Company strives to maintain an adequate liquidity position by managing the balances and maturities of interest-earning assets and interest-bearing liabilities so that the balance it has in short-term investments at any given time will cover adequately any reasonably anticipated, immediate need for funds. Additionally, the Bank maintains relationships with correspondent banks, which could provide funds on short-term notice if needed. Our liquidity, represented by cash and cash-equivalents and investment securities, is a product of our operating, investing and financing activities.

Liquidity management is both a daily and long-term function of the management of the Company and the Bank. It is overseen by the Asset and Liability Management Committee. The Board of Directors required the Bank to maintain a minimum liquidity ratio of 10% of deposits. At June 30, 2016, our ratio was 25.6%. The Company is currently in excess of the minimum liquidity ratio set by the Board due to a larger investment portfolio. Management continues to seek to utilize liquidity off of the investment portfolio to fund loan growth over the next few years as demand for loans increases. Excess liquidity is generally invested in short-term investments, such as overnight deposits and federal funds. On a longer term basis, we maintain a strategy of investing in various lending products and investment securities, including mortgage-backed securities. The Bank uses its sources of funds primarily to meet its ongoing commitments, pay maturing deposits, fund deposit withdrawals and fund loan commitments.

We hold cash and investments that qualify as liquid assets to maintain adequate liquidity to ensure safe and sound operation and meet demands for funds (particularly withdrawals of deposits). At June 30, 2016, on a consolidated basis, the Company had $285.8 million in cash and investment securities available for sale and $8.6 million in loans held for sale generally available for its cash needs. We can also generate funds from borrowings, primarily FHLB advances, and, to a lesser degree, third party loans. At June 30, 2016, the Bank had the ability to borrow an additional $38.9 million in FHLB advances. In addition, we have historically sold 15- and 30-year, fixed-rate mortgage loans in the secondary market in order to reduce interest rate risk and to create another source of liquidity. The Company is a separate legal entity from the Bank and must provide for its own liquidity. In addition to its own operating expenses (many of which are paid to the Bank), the Company is responsible for paying amounts owed on its trust preferred securities, any dividends declared to its common stockholders, and interest and principal on outstanding debt. The Company’s primary source of funds is Bank dividends, the payment of which is subject to regulatory limits. At June 30, 2016, the Company, on an unconsolidated basis, had $887,000 in cash, interest-bearing deposits and liquid investments generally available for its cash needs.

Our liquidity, represented by cash and cash equivalents and investment securities, is a product of our operating, investing and financing activities. Our primary sources of funds are deposits, amortization, prepayments and maturities of outstanding loans and mortgage-backed securities, maturities of investment securities and other short-term investments and funds provided from operations. While scheduled payments from the amortization of loans and mortgage-backed securities and maturing investment securities and short-term investments are relatively predictable sources of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions and competition. In addition, we invest excess funds in short-term interest-earning assets, which provide liquidity to meet lending requirements. We also generate cash through borrowings. We utilize FHLB advances to leverage our capital base and provide funds for our lending and investment activities, and to enhance our interest rate risk management.

We use our sources of funds primarily to meet ongoing commitments, pay maturing deposits and fund withdrawals, and to fund loan commitments. At June 30, 2016, the approved outstanding loan commitments, including unused lines of credit, amounted to $263.5 million. Certificates of deposit scheduled to mature in one year or less as of June 30, 2016, totaled $101.8 million. It is management’s policy to offer deposit rates that are competitive with other local financial institutions. Based on this management strategy, we believe that a majority of maturing deposits will remain with the Bank.

Except as set forth above, management is not aware of any trends, events, or uncertainties that will have, or that are reasonably likely to have a material impact on liquidity, capital resources or operations. Further, management is not aware of any current recommendations by regulatory agencies, which, if they were to be implemented, would have this effect.

Off-Balance Sheet Activities

In the normal course of operations, the Bank engages in a variety of financial transactions that are not recorded in our financial statements. These transactions involve varying degrees of off-balance sheet credit, interest rate and liquidity risks. These transactions are used primarily to manage customers' requests for funding and take the form of loan commitments and lines of credit. We also have off-balance sheet obligations to repay borrowings and deposits. For the quarter ended June 30, 2016, we engaged in no off-balance sheet transactions likely to have a material effect on our financial condition, results of operations or cash flows. At June 30, 2016, the Bank had $153.1 million in commitments to make loans, $11.6 million in undisbursed portions of closed loans, $96.2 million in unused lines of credit and $2.6 million in standby letters of credit. In addition, on a consolidated basis, at June 30, 2016, the Company had $252.9 million in outstanding non-deposit borrowings, of which $55.8 million is due in the next twelve months.

Capital Resources

The Bank is subject to minimum capital requirements imposed by the FDIC. See 'Item 1 - Business- How We Are Regulated - Regulatory Capital Requirements' of the Company's Annual Report on Form 10-K for the year ended December 31, 2015. The FDIC may require the Bank to have additional capital above the specific regulatory levels if it believes the Bank is subject to increased risk due to asset problems, high interest rate risk and other risks. The Company is subject to minimum capital requirements imposed by the FRB, which are substantially similar to those imposed on the Bank, including guidelines for bank holding companies to be considered well-capitalized.

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Furthermore, the Bank's regulators could require adjustments to regulatory capital not reflected in these financial statements.

Quantitative measures established by regulation to ensure capital adequacy require the Company and Bank to maintain minimum amounts and ratios (set forth in the table below) of total, Tier I and Common Equity Tier I capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier I capital to average assets (as defined). As of June 30, 2016, the Company and Bank meet all capital adequacy requirements to which it is subject.

In July 2013, the three federal bank regulatory agencies jointly published final rules (the Basel III Capital Rules) establishing a new comprehensive capital framework for U.S. banking organizations. The rules implement the Basel Committee's December 2010 framework known as "Basel III" for strengthening international capital standards as well as certain provisions of the Dodd-Frank Act. These rules substantially revise the risk-based capital requirements applicable to bank holding companies and depository institutions, compared to the current U.S. risk-based capital rules. The Basel III Capital Rules define the components of capital and address other issues affecting the numerator in banking institutions' regulatory capital ratios. These rules also address risk weights and other issues affecting the denominator in banking institutions' regulatory capital ratios and replace the existing risk-weighting approach with a more risk-sensitive approach. The Basel III Capital Rules were effective for the Company and Bank on January 1, 2015 (subject to a four-year phase-in period). January 1, 2016 started the second year of phase-in requirements.

The Basel III Capital Rules, among other things, (i) introduced a new capital measure called “Common Equity Tier 1” (CET1), (ii) specify that Tier 1 capital consist of CET1 and “Additional Tier 1 Capital” instruments meeting specified requirements, (iii) defined CET1 narrowly by requiring that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital and (iv) expanded the scope of the deductions/adjustments as compared to existing regulations.

Implementation of the deductions and other adjustments to CET1 began on January 1, 2015, and will phase in over a four-year period (beginning at 40% on January 1, 2015, and an additional 20% per year thereafter). Under the new rule, in order to avoid limitations on capital distributions, including dividend payments and certain discretionary bonus payments to executive officers, a banking organization must hold a capital conservation buffer composed of CET1 capital above its minimum risk-based capital requirements. The implementation of the capital conservation buffer begins on January 1, 2016, at the 0.625% level and will phase in over a four-year period (increasing by that amount on each subsequent January 1 until it reaches 2.5% on January 1, 2019).

The Company’s and Bank’s actual capital amounts and ratios as of June 30, 2016, are presented in the table below.

	Actual Capital Levels		Minimum Regulatory Capital Levels		Minimum Required To be Considered Well-Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Leverage Capital Level[(1)]:						
MutualFirst Consolidated	$ 134,460	9.0 %	$ 59,967	4.0 %	N/A	N/A
MutualBank	137,427	9.2	59,635	4.0	$ 74,543	5.0 %
Common Equity Tier 1 Capital Level [(2)] :						
MutualFirst Consolidated	$ 132,042	12.1 %	$ 49,296	4.5 %	N/A	N/A
MutualBank	137,427	12.6	49,240	4.5	$ 71,125	6.5 %
Tier 1 Risk-Based Capital Level [(3)] :						
MutualFirst Consolidated	$ 134,460	12.3 %	$ 65,729	6.0 %	N/A	N/A
MutualBank	137,427	12.6	65,654	6.0	$ 87,538	8.0 %
Total Risk-Based Capital Level [(4)] :						
MutualFirst Consolidated	$ 147,064	13.4 %	$ 87,638	8.0 %	N/A	N/A
MutualBank	150,031	13.7	87,538	8.0	$ 109,423	10.0 %

(1) Tier 1 Capital to Assets for Leverage Ratio of $1.5 billion for the Bank and Company at June 30, 2016.
(2) Common Equity Tier 1 Capital to Risk-Weighted Assets of $1.0 billion for the Bank and Company at June 30, 2016.
(3) Tier 1 Capital to Risk-Weighted Assets.
(4) Total Capital to Risk-Weighted Assets.

Impact of Inflation

The effects of price changes and inflation can vary substantially for most financial institutions. While management believes that inflation affects the economic value of total assets, it believes that it is difficult to assess the overall impact. Management believes this to be the case due to the fact that generally neither the timing nor the magnitude of the inflationary changes in the consumer price index (“CPI”) coincides with changes in interest rates. For example, the price of one or more of the components of the CPI may fluctuate considerably and thereby influence the overall CPI without having a corresponding effect on interest rates or upon the cost of those goods and services normally purchased by us. In years of high inflation and high interest rates, intermediate and long-term interest rates tend to increase, thereby adversely impacting the market values of investment securities, mortgage loans and other long-term fixed rate loans. In addition, higher short-term interest rates caused by inflation tend to increase the cost of funds. In other years, the opposite may occur.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Information about the Company’s asset and liability management and market and interest-rate risks is included in Item 7A of the Form 10-K for the year ended December 31, 2015, filed with the SEC on March 15, 2016.

Asset and Liability Management and Market Risk

Our Risk When Interest Rates Change. The rates of interest we earn on assets and pay on liabilities generally is established contractually for a period of time. Market interest rates change over time. Accordingly, our results of operations, like those of other financial institutions, are impacted by changes in interest rates and the interest rate sensitivity of our assets and liabilities. The risk associated with changes in interest rates and our ability to adapt to these changes is known as interest rate risk and is one of our most significant market risks.

Management continues to evaluate options to mitigate interest rate risk in an increasing interest rate environment during this cycle of extremely low interest rates. This includes shortening assets and lengthening liabilities when possible.

How We Measure Our Risk of Interest Rate Changes. As part of our attempt to manage our exposure to changes in interest rates, we monitor our interest rate risk. In monitoring interest rate risk, we continually analyze and manage assets and liabilities based on their payment streams and interest rates, the timing of their maturities and their sensitivity to actual or potential changes in market interest rates. In order to minimize the potential for adverse effects of material and prolonged changes in interest rates on our results of operations, the Bank's board of directors establishes asset and liability management policies to better match the maturities and repricing terms of our interest-earning assets and interest-bearing liabilities.

These asset and liability policies are implemented by the Asset and Liability Management Committee, which is chaired by the Chief Financial Officer and is comprised of members of our senior management team. The purpose of the Asset and Liability Management Committee is to communicate, coordinate and control asset/liability management issues consistent with our business plan and board-approved policies. The committee establishes and monitors the volume and mix of assets and funding sources taking into account relative costs and spreads, interest rate sensitivity and liquidity needs. The objective of these actions is to manage assets and funding sources consistent with liquidity, capital adequacy, growth, risk and profitability goals. The Asset and Liability Management Committee generally meets monthly to review, among other things, economic conditions and interest rate outlook, current and projected liquidity needs and capital position, anticipated changes in the volume and mix of assets and liabilities and interest rate risk exposure limits versus current projections pursuant to a net present value of portfolio equity analysis and income simulations. At each meeting, the Asset and Liability Management Committee recommends appropriate strategy changes based on this review. The Chief Financial Officer is responsible for reviewing and reporting on the effects of the policy implementations and strategies to the Board of Directors, at least quarterly.

In order to manage our assets and liabilities and achieve the desired liquidity, credit quality, interest rate risk, profitability and capital targets, we have sought to:

- originate and purchase adjustable rate mortgage loans and commercial business loans;
- originate shorter-duration consumer loans,
- manage our deposits to establish stable deposit relationships,
- acquire longer-term borrowings at fixed rates, when appropriate, to offset the negative impact of longer-term fixed rate loans in our loan portfolio, and
- limit the percentage of long-term fixed-rate loans in our portfolio.

Depending on the level of general interest rates, the relationship between long and short-term interest rates, market conditions and competitive factors, the Asset and Liability Management Committee may increase our interest rate risk position somewhat in order to maintain our net interest margin and improve earnings. We will continue to increase our emphasis on the origination of relatively short-term and/or adjustable rate loans. In addition, in an effort to avoid an increase in the percentage of long-term, fixed-rate loans in our portfolio, during the first half of 2016 we sold in the secondary market $61.4 million of primarily fixed rate, one- to four-family mortgage loans with a term to maturity of 15 years or greater.

If past rate movements are an indication of future changes, they usually are neither instantaneous nor do a majority of core deposits reprice at the same level as rates change. The following chart reflects the Bank's percentage change in net interest income, over a one year time period, and net portfolio value (NPV) assuming an instantaneous parallel rate shock in a range from down 100 basis points to up 400 basis points as of June 30, 2016.

	Percentage Change in Net Interest Income	NPV
Rate Shock:		
Up 400 basis points	(3.0)%	(6.0)%
Up 300 basis points	(1.2)%	(3.7)%
Up 200 basis points	0.3 %	(0.6)%
Up 100 basis points	1.2 %	1.6 %
Down 100 basis points	(8.2)%	(21.8)%

The following chart indicates the Company's percentage change in net interest income and NPV assuming rate movements that are not instantaneous, but change gradually over one year.

	Percentage Change in Net Interest Income	NPV
Rate Shock:		
Up 400 basis points	(1.2)%	(2.4)%
Up 300 basis points	(1.1)%	(1.7)%
Up 200 basis points	(0.6)%	0.3 %
Up 100 basis points	(0.0)%	1.8 %
Down 100 basis points	(6.9)%	(21.8)%

As with any method of measuring interest rate risk, certain shortcomings are inherent in the method of analysis presented in the chart. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. Additionally, certain assets, such as adjustable rate mortgage loans, have features which restrict changes in interest rates on a short-term basis and over the life of the asset. Further, if interest rates change, expected rates of prepayments on loans and early withdrawals from certificates could deviate significantly from those assumed in calculating the tables. Therefore, the Company also considers potential interest rate shocks that are not immediate parallel shocks in various rate scenarios. Management currently believes that interest rate risk is managed appropriately in more practical rate shock scenarios than those in the chart above.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain a system of disclosure controls and (as defined in sec Rule 13a-15(e) of the Securities Exchange Act of 1934 (the “Exchange Act”)) that is designed to provide reasonable assurance that information required to be disclosed by us in the reports that we file under the Exchange Act is recorded, processed, summarized and reported accurately and within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate. An evaluation of the Company’s disclosure controls and procedures as of June 30, 2016, was carried out under the supervision and with the participation of our Chief Executive Officer, Chief Financial Officer and several other members of our senior management preceding the filing date of this annual report. Our Chief Executive Officer and Chief Financial Officer concluded that, as of June 30, 2016, the Company’s disclosure controls and procedures were effective in ensuring that the information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is (i) accumulated and communicated to the Company’s management (including our Chief Executive Officer and Chief Financial Officer) in a timely manner, and (ii) recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms.

The Company does not expect that its disclosure controls and procedures will prevent all error and all fraud. A control procedure, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control procedure are met. Because of the inherent limitations in all control procedures, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within MutualFirst have been detected. These inherent limitations include the realities that judgment in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any control procedure also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control procedure, misstatements due to error or fraud may occur and not be detected.

Changes in Internal Controls over Financial Reporting

There were no changes in our internal controls over financial reporting (as defined in SEC Rule 13a-15(f) under the Exchange Act) that occurred during the quarter ended June 30, 2016, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

There are no material changes to the risk factors disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On February 19, 2016, the Company announced that its Board of Directors had authorized the repurchase of up to 375,000 shares of common stock, or approximately 5% of its then-outstanding shares over a one-year period. As of June 30, 2016, the Company had repurchased 175,428 shares at a weighted average price of $24.82 per share for a total of $4.4 million, and there were 199,572 remaining shares that may be repurchased under the current authorization. These stock repurchases may be made from time-to-time in open market or negotiated transactions as deemed appropriate by the Company and will depend on market conditions. The following provides more detail on the stock repurchases during the quarter ended June 30, 2016.

	Total Number of Shares Purchased	Average Price Paid Per Share	Number of Shares Purchased As Part of Publicly Announced Plan or Programs	Maximum Number of Shares That May Yet Be Purchased Under the Publicly Announced Plans or Programs
April	-	$ -	-	343,282
May	-	-	-	343,282
June	143,710	25.00	143,710	199,572
	143,710	$ 25.00	143,710	

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

Regulation S-K Exhibit Number	Document	Reference to Prior Filing or Exhibit Number Attached Hereto
3.1	Articles of Incorporation	b
3.1a	Articles Supplementary to Charter	p
3.2	Articles Supplementary for the Series A Preferred Stock	c
3.3	Articles Supplementary for the SBLF Preferred Stock	a
3.4	Amended Bylaws	k
3.4a	Amended and Restated Bylaws	q
3.5	Articles Supplementary to the Company's Charter re: term of appointed directors	l
4.1	Form of Common Stock Certificate	b
4.2	Form of Certificate for the Series A Preferred Stock	c
4.3	Form of Certificate for the SBLF Preferred Stock	a
9	Voting Trust Agreement	None
10.1	Employment Agreement with David W. Heeter	e
10.2	Employment Agreement with Patrick C. Botts	e
10.3	Form of Supplemental Retirement Plan Income Agreements for Patrick C. Botts and David W. Heeter	f
10.4	Named Executive Officer Salaries and Bonus Arrangements for 2013	n
10.5	Form of Director Shareholder Benefit Program Agreement, as amended, for Jerry D. McVicker	g
10.6	Form of Agreements for Executive Deferred Compensation Plan for Patrick C. Botts and David W. Heeter	f
10.7	Registrant's 2001 Stock Option and Incentive Plan	h
10.8	Registrant's 2001 Recognition and Retention Plan	h
10.9	Director Fee Arrangements for 2015	10.9
10.10	Director Deferred Compensation Plan	i
10.11	MutualFirst Financial, Inc. 2008 Stock Option and Incentive Plan	d
10.12	MFB Corp. 2002 Stock Option Plan	d
10.13	MFB Corp. 1997 Stock Option Plan	d
10.14	Employment Agreement with Charles J. Viater	e
10.15	Salary Continuation Agreement with Charles J. Viater	d
10.16	Loan Agreement with First Tennessee Bank National Association dated December 21, 2009.	m
10.17	Form of Incentive Stock Option Agreement for 2008 Stock Option and Incentive Plan	j
10.18	Form of Non-Qualified Stock Option Agreement for 2008 Stock Option and Incentive Plan	j
10.19	Small Business Lending Fund - Securities Purchase Agreement, dated August 25, 2011, between MutualFirst Financial, Inc. and the Secretary of the Treasury, with respect to the issuance and sale of the SBLF Preferred Stock	a
10.20		a

	Repurchase Agreement dated August 25, 2012, between MutualFirst Financial, Inc. and the United States Department of the Treasury, with respect to the repurchase and redemption of the TARP Preferred Stock	
10.21	Employment Agreement with Christopher D. Cook.	e
10.22	Agreement with Richard J. Lashley and PL Capital Group	q
11	Statement re computation of per share earnings	None
12	Statements re computation of ratios	None
14	Code of Ethics	o
16	Letter re change in certifying accountant	None
18	Letter re change in accounting principles	None

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21	Subsidiaries of the registrant	21
22	Published report regarding matters submitted to vote of security holders	None
23	Consents of experts and counsel	23
24	Power of Attorney	None
31.1	Rule 13(a)-14(a) Certification (Chief Executive Officer)	31.1
31.2	Rule 13(a)-14(a) Certification (Chief Financial Officer)	31.2
32	Section 1350 Certification	32
101	Financial Statements from the Company's Form 10-Q for the three and six months ended June 30, 2016 and 2015 and year ended December 31, 2015, formatted in Extensive Business Reporting Language (XBRL); (i) Consolidated Condensed Balance Sheets as of June 30, 2016 and December 31, 2015; (ii) Consolidated Condensed Statements of Income for the Three and Six Months Ended June 30, 2016 and 2015; (iii) Consolidated Condensed Statement of Stockholders' Equity for the Period Ended June 30, 2016; (iv) Consolidated Condensed Statements of Cash Flows for the Six Months Ended June 30, 2016 and 2015; and (vi) Notes to Consolidated Financial Statements for the Three and Six Months Ended June 30, 2016 and 2015, as follows:	

101.INS	XBRL Instance Document	101.INS
101.SCH	XBRL Taxonomy Extension Schema Document	101.SCH
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	101.CAL
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	101.DEF
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document	101.LAB
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	101.PRE

a Filed as an exhibit to the Company's Form 8-K filed on August 26, 2011 and incorporated herein by reference.

b Filed as an exhibit to the Company's Form S-1 registration statement filed on September 16, 1999 and incorporated herein by reference.

c Filed as an exhibit to the Company's Form 8-K filed on December 23, 2008 and incorporated herein by reference.

d Filed as an Exhibit to the Company's Annual Report on Form 10-K filed on March 23, 2009 and incorporated herein by reference.

e Filed as an exhibit to the Company's Form 10-Q filed on November 14, 2012 and incorporated herein by reference.

f Filed as an exhibit to the Company's Annual Report on Form 10-K filed on March 30, 2001 and incorporated herein by reference.

g Filed as an exhibit to the Company's Annual Report on Form 10-K filed on April 2, 2002 and incorporated herein by reference.

h Filed as an Appendix to the Company's Form S-4/A Registration Statement filed on October 19, 2001 and incorporated herein by reference.

i Filed as an exhibit to the Company's Annual Report on Form 10-K filed on March 16, 2007 and incorporated herein by reference.

j Filed as an exhibit to the Company's Form 10-K filed on March 23, 2010 and incorporated herein by reference.

k Filed as an exhibit to the Company's Form 8-K filed on October 15, 2007 and incorporated herein by reference.

l Filed as an exhibit to the Company's Form 8-K filed on July 15, 2008 and incorporated herein by reference.

m Filed as an exhibit to the Company's Form 8-K filed on December 24, 2009 and incorporated herein by reference.

n Filed as an exhibit to the Company's Form 8-K filed on February 15, 2012 and incorporated herein by reference.

o Filed as an exhibit to the Company's Annual Report on Form 10-K filed on March 15, 2004 and incorporated herein by reference.

p Filed as an exhibit to the Company's Form 8-K filed on July 15, 2008 and incorporated herein by reference.

q Filed as an exhibit to the Company's Form 8-K filed on February 27, 2015 and incorporated herein by reference.

(b) Exhibits - See list in (a)(3) and the Exhibit Index following the signature page.

(c) Financial Statements Schedules - None

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SIGNATURES

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

Date:	August 9, 2016	By:	/s/David W. Heeter
			David W. Heeter
			President and Chief Executive Officer
Date:	August 9, 2016	By:	/s/Christopher D. Cook
			Christopher D. Cook
			Senior Vice President, Treasurer and Chief Financial Officer

INDEX TO EXHIBITS

Number	Description
31.1	Rule 13(a)-14(a) Certification (Chief Executive Officer)
31.2	Rule 13(a)-14(a) Certification (Chief Financial Officer)
32	Section 1350 Certification
101	Financial Statements from the Company's Form 10-Q for the three and six months ended June 30, 2016 and 2015 and year ended December 31, 2015, formatted in Extensive Business Reporting Language (XBRL); (i) Consolidated Condensed Balance Sheets as of June 30, 2016 and December 31, 2015; (ii) Consolidated Condensed Statements of Income for the Three and Six Months Ended June 30, 2016 and 2015; (iii) Consolidated Condensed Statement of Stockholders' Equity for the Period Ended June 30, 2016; (iv) Consolidated Condensed Statements of Cash Flows for the Six Months Ended June 30, 2016 and 2015; and (vi) Notes to Consolidated Financial Statements for the Three and Six Months Ended June 30, 2016 and 2015, as follows:
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document