FIRST FINANCIAL CORP /IN/
Form 10-Q
November 05, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For The Quarterly Period Ended September 30, 2014

Commission File Number 0-16759

FIRST FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

INDIANA (State or other jurisdiction incorporation or organization)	35-1546989 (I.R.S. Employer Identification No.)
One First Financial Plaza, Terre Haute, IN (Address of principal executive office)	47807 (Zip Code)

(812)238-6000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such 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 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 the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

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

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

As of November 3, 2014, the registrant had outstanding 12,905,807 shares of common stock, without par value.

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Part I – Financial Information
Item 1. Financial Statements
FIRST FINANCIAL CORPORATION
CONSOLIDATED BALANCE SHEETS
(Dollar amounts in thousands, except per share data)

	September 30, 2014 (unaudited)	December 31, 2013
ASSETS		
Cash and due from banks	$96,998	$71,033
Federal funds sold	14,980	4,276
Securities available-for-sale	900,110	914,560
Loans:		
Commercial	1,064,375	1,042,138
Residential	477,021	482,377
Consumer	269,291	268,033
	1,810,687	1,792,548
Less:		
Unearned Income/Expense	638	(1,120)
Allowance for loan losses	(17,507)	(20,068)
	1,793,818	1,771,360
Restricted Stock	21,075	21,057
Accrued interest receivable	12,100	11,554
Premises and equipment, net	52,573	51,449
Bank-owned life insurance	80,311	79,035
Goodwill	39,489	39,489
Other intangible assets	4,145	4,935
Other real estate owned	4,012	5,291
FDIC Indemnification Asset	375	1,055
Other assets	36,781	43,624
TOTAL ASSETS	$3,056,767	$3,018,718
LIABILITIES AND SHAREHOLDERS’ EQUITY		
Deposits:		
Non-interest-bearing	$539,322	$506,815
Interest-bearing:		
Certificates of deposit of $100 or more	166,544	179,177
Other interest-bearing deposits	1,746,086	1,772,799
	2,451,952	2,458,791
Short-term borrowings	59,031	59,592
Other borrowings	87,961	58,288
Other liabilities	53,950	55,852
TOTAL LIABILITIES	2,652,894	2,632,523
Shareholders’ equity		
Common stock, $.125 stated value per share;		
Authorized shares-40,000,000		
Issued shares-14,538,132 in 2014 and 14,516,113 in 2013		
Outstanding shares-12,962,607 in 2014 and 13,343,029 in 2013	1,814	1,811

Additional paid-in capital	71,914	71,074
Retained earnings	375,130	357,083
Accumulated other comprehensive loss	(2,325)	(13,969)
Less: Treasury shares at cost-1,575,525 in 2014 and 1,173,084 in 2013	(42,660)	(29,804)
TOTAL SHAREHOLDERS' EQUITY	403,873	386,195
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$3,056,767	$3,018,718

See accompanying notes.

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FIRST FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (LOSS)
(Dollar amounts in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014 (unaudited)	2013 (unaudited)	2014 (unaudited)	2013 (unaudited)
INTEREST INCOME:				
Loans, including related fees	$21,939	$22,510	$65,782	$68,540
Securities:				
Taxable	4,196	5,038	12,938	11,732
Tax-exempt	1,782	1,750	5,294	5,281
Other	459	421	1,301	1,413
TOTAL INTEREST INCOME	28,376	29,719	85,315	86,966
INTEREST EXPENSE:				
Deposits	1,088	1,349	3,611	4,625
Short-term borrowings	49	23	85	62
Other borrowings	94	549	726	2,570
TOTAL INTEREST EXPENSE	1,231	1,921	4,422	7,257
NET INTEREST INCOME	27,145	27,798	80,893	79,709
Provision for loan losses	1,506	495	3,110	6,476
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	25,639	27,303	77,783	73,233
NON-INTEREST INCOME:				
Trust and financial services	1,386	1,402	4,289	4,331
Service charges and fees on deposit accounts	2,813	2,693	8,058	7,341
Other service charges and fees	3,112	2,818	8,940	8,044
Securities gains/(losses), net	—	—	(1)	7
Insurance commissions	2,091	1,896	5,620	5,800
Gain on sales of mortgage loans	519	583	1,352	2,489
Other	573	245	1,676	1,165
TOTAL NON-INTEREST INCOME	10,494	9,637	29,934	29,177
NON-INTEREST EXPENSE:				
Salaries and employee benefits	14,081	13,773	42,064	41,082
Occupancy expense	1,776	1,544	5,490	4,642
Equipment expense	1,905	1,686	5,467	4,724
FDIC Expense	536	500	1,496	1,559
Other	6,407	7,316	17,706	18,394
TOTAL NON-INTEREST EXPENSE	24,705	24,819	72,223	70,401
INCOME BEFORE INCOME TAXES	11,428	12,121	35,494	32,009
Provision for income taxes	3,156	3,649	10,903	9,398
NET INCOME	8,272	8,472	24,591	22,611
OTHER COMPREHENSIVE INCOME				
Change in unrealized gains/losses on securities, net of reclassifications and taxes	1,879	(2,322)	11,298	(14,548)
Change in funded status of post retirement benefits, net of taxes	116	340	346	892
COMPREHENSIVE INCOME	$10,267	$6,490	$36,235	$8,955
PER SHARE DATA				

Basic and Diluted Earnings per Share	$0.62	$0.64	$1.85	$1.70
Dividends per Share	$—	$—	$0.49	$0.48
Weighted average number of shares outstanding (in thousands)	13,269	13,307	13,325	13,305

See accompanying notes.

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FIRST FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
Three Months Ended
September 30, 2014, and 2013
(Dollar amounts in thousands, except per share data)
(Unaudited)

	Common Stock	Additional Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Treasury Stock	Total
Balance, July 1, 2013	$1,809	$70,354	$346,093	$(19,146)	$(30,707)	$368,403
Net income	—	—	8,472	—	—	8,472
Other comprehensive income (loss)	—	—	—	(1,982)	—	(1,982)
Omnibus Equity Incentive Plan	1	183	—	—	—	184
Balance, September 30, 2013	$1,810	$70,537	$354,565	$(21,128)	$(30,707)	$375,077
Balance, July 1, 2014	$1,812	$71,557	$366,858	$(4,320)	$(30,161)	$405,746
Net income	—	—	8,272	—	—	8,272
Other comprehensive income	—	—	—	1,995	—	1,995
Treasury stock purchase (392,665 shares)	—	—	—	—	(12,499)	(12,499)
Omnibus Equity Incentive Plan	2	357	—	—	—	359
Balance, September 30, 2014	$1,814	$71,914	$375,130	$(2,325)	$(42,660)	$403,873

See accompanying notes.

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FIRST FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
Nine Months Ended
September 30, 2014, and 2013
(Dollar amounts in thousands, except per share data)
(Unaudited)

	Common Stock	Additional Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Treasury Stock	Total
Balance January 1, 2013	$1,808	$69,989	$338,342	$(7,472)	$(30,545)	$372,122
Net income	—	—	22,611	—	—	22,611
Other comprehensive income (loss)	—	—	—	(13,656)	—	(13,656)
Treasury stock purchase (5,354 shares)	—	—	—	—	(162)	(162)
Omnibus Equity Incentive Plan	2	548	—	—	—	550
Cash Dividends, $.48 per share	—	—	(6,388)	—	—	(6,388)
Balance, September 30, 2013	$1,810	$70,537	$354,565	$(21,128)	$(30,707)	$375,077
Balance, January 1, 2014	$1,811	$71,074	$357,083	$(13,969)	$(29,804)	$386,195
Net income	—	—	24,591	—	—	24,591
Other comprehensive income (loss)	—	—	—	11,644	—	11,644
Treasury stock purchase (402,441 shares)	—	—	—	—	(12,856)	(12,856)
Omnibus Equity Incentive Plan	3	840	—	—	—	843
Cash Dividends, $.49 per share	—	—	(6,544)	—	—	(6,544)
Balance, September 30, 2014	$1,814	$71,914	$375,130	$(2,325)	$(42,660)	$403,873

See accompanying notes.

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FIRST FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollar amounts in thousands, except per share data)

	Nine Months Ended September 30,	
	2014	2013
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	$24,591	$22,611
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization (accretion) of premiums and discounts on investments	1,988	2,092
Provision for loan losses	3,110	6,476
Securities (gains) losses	1	(7)
(Gain) loss on sale of other real estate	(150)	109
Restricted stock compensation	843	550
Depreciation and amortization	4,536	4,066
Other, net	3,641	1,488
NET CASH FROM OPERATING ACTIVITIES	38,560	37,385
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of securities available-for-sale	355	5,052
Redemption of restricted stock	—	250
Purchases of restricted stock	(18)	(8)
Cash received from purchase of branches	—	177,251
Calls, maturities and principal reductions on securities available-for-sale	99,027	126,395
Purchases of securities available-for-sale	(68,704)	(339,872)
Loans made to customers, net of repayment	(26,518)	36,105
Proceeds from sales of other real estate owned	2,468	1,251
Net change in federal funds sold	(10,704)	17,380
Additions to premises and equipment	(4,870)	(1,850)
NET CASH FROM INVESTING ACTIVITIES	(8,964)	21,954
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net change in deposits	(7,265)	20,978
Net change in short-term borrowings	(561)	(12,622)
Proceeds from other borrowings	427,000	135,000
Maturities of other borrowings	(397,000)	(196,097)
Purchase of treasury stock	(12,856)	(162)
Dividends paid	(12,949)	(12,767)
NET CASH FROM FINANCING ACTIVITIES	(3,631)	(65,670)
NET CHANGE IN CASH AND CASH EQUIVALENTS	25,965	(6,331)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	71,033	87,230
CASH AND CASH EQUIVALENTS, END OF PERIOD	$96,998	$80,899

See accompanying notes.

FIRST FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The accompanying September 30, 2014 and 2013 consolidated financial statements are unaudited. The December 31, 2013 consolidated financial statements are as reported in the First Financial Corporation (the "Corporation") 2013 annual report. The information presented does not include all information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. The following notes should be read together with notes to the consolidated financial statements included in the 10-K filed with the Securities and Exchange Commission for the fiscal year ended December 31, 2013.

1. Significant Accounting Policies

The significant accounting policies followed by the Corporation and its subsidiaries for interim financial reporting are consistent with the accounting policies followed for annual financial reporting. All adjustments which are, in the opinion of management, necessary for a fair statement of the results for the periods reported have been included in the accompanying consolidated financial statements and are of a normal recurring nature. The Corporation reports financial information for only one segment, banking. Some items in the prior year financials were reclassified to conform to the current presentation.

The Omnibus Equity Incentive Plan is a long-term incentive plan that was designed to align the interests of participants with the interests of shareholders. Under the plan, awards may be made based on certain performance measures. The grants are made in restricted stock units that are subject to a vesting schedule. These shares vest over 3 years in increments of 33%, 33%, and 34% respectively. In 2014 and 2013, 22,019 and 30,219 shares were awarded, respectively. These shares had a grant date value of $708 thousand and $923 thousand for 2014 and 2013, vest over three years and their grant is not subject to future performance measures. Outstanding shares are increased at the award date for the total shares awarded.

2. Allowance for Loan Losses

The following table presents the activity of the allowance for loan losses by portfolio segment for the three months ended September 30.

Allowance for Loan Losses:	September 30, 2014				
(Dollar amounts in thousands)	Commercial	Residential	Consumer	Unallocated	Total
Beginning balance	$10,850	$1,374	$3,769	$2,262	$18,255
Provision for loan losses*	589	72	1,047	(178)	1,530
Loans charged -off	(1,310)	(153)	(1,193)	—	(2,656)
Recoveries	51	34	293	—	378
Ending Balance	$10,180	$1,327	$3,916	$2,084	$17,507

* Provision before decrease of $24 thousand in 2014 for increase in FDIC indemnification asset

Allowance for Loan Losses:	September 30, 2013				
(Dollar amounts in thousands)	Commercial	Residential	Consumer	Unallocated	Total
Beginning balance	$14,531	$1,592	$3,637	$2,373	$22,133
Provision for loan losses*	(486)	(266)	504	548	300
Loans charged -off	(388)	(284)	(840)	—	(1,512)
Recoveries	361	398	324	—	1,083
Ending Balance	$14,018	$1,440	$3,625	$2,921	$22,004

* Provision before increase of $195 thousand in 2013 for decrease in FDIC indemnification asset

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The following table presents the activity of the allowance for loan losses by portfolio segment for the nine months ended September 30.

Allowance for Loan Losses:	September 30, 2014				
(Dollar amounts in thousands)	Commercial	Residential	Consumer	Unallocated	Total
Beginning balance	$12,450	$1,585	$3,650	$2,383	$20,068
Provision for loan losses*	270	84	2,380	(299)	2,435
Loans charged -off	(2,956)	(958)	(3,228)		(7,142)
Recoveries	416	616	1,114		2,146
Ending Balance	$10,180	$1,327	$3,916	$2,084	$17,507

* Provision before increase of $675 thousand in 2014 for decrease in FDIC indemnification asset

Allowance for Loan Losses:	September 30, 2013				
(Dollar amounts in thousands)	Commercial	Residential	Consumer	Unallocated	Total
Beginning balance	$10,987	$5,426	$3,879	$1,666	$21,958
Provision for loan losses*	2,438	234	1,348	1,255	5,275
Loans charged -off	(2,273)	(4,683)	(2,677)		(9,633)
Recoveries	2,866	463	1,075		4,404
Ending Balance	$14,018	$1,440	$3,625	$2,921	$22,004

* Provision before increase of $1.2 million in 2013 for decrease in FDIC indemnification asset

The following table presents the allocation of the allowance for loan losses and the recorded investment in loans by portfolio segment and based on the impairment method at September 30, 2014 and December 31, 2013.

Allowance for Loan Losses	September 30, 2014				
(Dollar amounts in thousands)	Commercial	Residential	Consumer	Unallocated	Total
Individually evaluated for impairment	$1,243	$—	$—	$—	$1,243
Collectively evaluated for impairment	8,197	1,290	3,916	2,084	15,487
Acquired with deteriorated credit quality	740	37	—	—	777
Ending Balance	$10,180	$1,327	$3,916	$2,084	$17,507

Loans:	September 30, 2014				
(Dollar amounts in thousands)	Commercial	Residential	Consumer		Total
Individually evaluated for impairment	$17,495	$58	$—		$17,553
Collectively evaluated for impairment	1,047,045	476,522	270,476		1,794,043
Acquired with deteriorated credit quality	5,850	1,839	—		7,689
Ending Balance	$1,070,390	$478,419	$270,476		$1,819,285

Allowance for Loan Losses:	December 31, 2013				
(Dollar amounts in thousands)	Commercial	Residential	Consumer	Unallocated	Total
Individually evaluated for impairment	3,158	—	—	—	3,158
Collectively evaluated for impairment	8,421	1,408	3,650	2,383	15,862
Acquired with deteriorated credit quality	871	177	—	—	1,048
Ending Balance	$12,450	$1,585	$3,650	$2,383	$20,068

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Loans	December 31, 2013			
(Dollar amounts in thousands)	Commercial	Residential	Consumer	Total
Individually evaluated for impairment	18,825	37	—	18,862
Collectively evaluated for impairment	1,020,771	481,439	269,352	1,771,562
Acquired with deteriorated credit quality	8,001	2,397	—	10,398
Ending Balance	$1,047,597	$483,873	$269,352	$1,800,822

The following tables present loans individually evaluated for impairment by class of loans.

	September 30, 2014					
	Unpaid Principal	Recorded	Allowance for Loan Losses	Average Recorded	Interest Income	Cash Basis Interest
(Dollar amounts in thousands)	Balance	Investment	Allocated	Investment	Recognized	Recognized
With no related allowance recorded:						
Commercial						
Commercial & Industrial	$10,380	$7,941	$—	$3,005	$—	$—
Farmland	—	—	—	—	—	—
Non Farm, Non Residential	—	—	—	73	—	—
Agriculture	—	—	—	—	—	—
All Other Commercial	—	—	—	—	—	—
Residential						
First Liens	24	24	—	6	—	—
Home Equity	—	—	—	—	—	—
Junior Liens	—	—	—	—	—	—
Multifamily	—	—	—	—	—	—
All Other Residential	—	—	—	—	—	—
Consumer						
Motor Vehicle	—	—	—	—	—	—
All Other Consumer	—	—	—	—	—	—
With an allowance recorded:						
Commercial						
Commercial & Industrial	1,459	1,459	418	6,253	—	—
Farmland	—	—	—	—	—	—
Non Farm, Non Residential	6,836	6,836	710	6,709	—	—
Agriculture	—	—	—	—	—	—
All Other Commercial	1,259	1,259	115	1,184	—	—
Residential						
First Liens	34	34	—	36	—	—
Home Equity	—	—	—	—	—	—
Junior Liens	—	—	—	—	—	—
Multifamily	—	—	—	—	—	—
All Other Residential	—	—	—	—	—	—
Consumer						
Motor Vehicle	—	—	—	—	—	—
All Other Consumer	—	—	—	—	—	—
TOTAL	$19,992	$17,553	$1,243	$17,266	$—	$—

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	December 31, 2013					
(Dollar amounts in thousands)	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Income Recognized
With no related allowance recorded:						
Commercial						
Commercial & Industrial	$2,120	$1,918	$—	$1,555	$—	$—
Farmland	—	—	—	—	—	—
Non Farm, Non Residential	271	105	—	26	—	—
Agriculture	—	—	—	—	—	—
All Other Commercial	—	—	—	—	—	—
Residential						
First Liens	—	—	—	7	—	—
Home Equity	—	—	—	—	—	—
Junior Liens	—	—	—	—	—	—
Multifamily	—	—	—	—	—	—
All Other Residential	—	—	—	—	—	—
Consumer						
Motor Vehicle	—	—	—	—	—	—
All Other Consumer	—	—	—	—	—	—
With an allowance recorded:						
Commercial						
Commercial & Industrial	10,134	8,620	1,612	13,029	217	217
Farmland	—	—	—	356	113	113
Non Farm, Non Residential	7,664	7,204	1,500	7,921	—	—
Agriculture	—	—	—	—	—	—
All Other Commercial	1,062	1,062	46	2,979	—	—
Residential						
First Liens	37	37	—	524	—	—
Home Equity	—	—	—	113	—	—
Junior Liens	—	—	—	—	—	—
Multifamily	—	—	—	2,216	—	—
All Other Residential	—	—	—	—	—	—
Consumer						
Motor Vehicle	—	—	—	—	—	—
All Other Consumer	—	—	—	—	—	—
TOTAL	$21,288	$18,946	$3,158	$28,726	$330	$330

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	Three Months Ended September 30, 2014			Nine Months Ended September 30, 2014		
(Dollar amounts in thousands)	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Income Recognized
With no related allowance recorded:						
Commercial						
Commercial & Industrial	$4,103	$—	$—	$3,005	$—	$—
Farmland	—	—	—	—	—	—
Non Farm, Non Residential	42	—	—	73	—	—
Agriculture	—	—	—	—	—	—
All Other Commercial	—	—	—	—	—	—
Residential						
First Liens	12	—	—	6	—	—
Home Equity	—	—	—	—	—	—
Junior Liens	—	—	—	—	—	—
Multifamily	—	—	—	—	—	—
All Other Residential	—	—	—	—	—	—
Consumer						
Motor Vehicle	—	—	—	—	—	—
All Other Consumer	—	—	—	—	—	—
With an allowance recorded:						
Commercial						
Commercial & Industrial	4,420	—	—	6,253	—	—
Farmland	—	—	—	—	—	—
Non Farm, Non Residential	6,677	—	—	6,709	—	—
Agriculture	—	—	—	—	—	—
All Other Commercial	1,322	—	—	1,184	—	—
Residential						
First Liens	35	—	—	36	—	—
Home Equity	—	—	—	—	—	—
Junior Liens	—	—	—	—	—	—
Multifamily	—	—	—	—	—	—
All Other Residential	—	—	—	—	—	—
Consumer						
Motor Vehicle	—	—	—	—	—	—
All Other Consumer	—	—	—	—	—	—
TOTAL	$16,611	$—	$—	$17,266	$—	$—

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	Three Months Ended September 30, 2013			Nine Months Ended September 30, 2013		
(Dollar amounts in thousands)	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Income Recognized
With no related allowance recorded:						
Commercial						
Commercial & Industrial	$2,728	$—	$—	$1,464	$—	$—
Farmland	—	—	—	—	—	—
Non Farm, Non Residential	12	—	—	6	—	—
Agriculture	—	—	—	—	—	—
All Other Commercial	—	—	—	—	—	—
Residential						
First Liens	17	—	—	9	—	—
Home Equity	—	—	—	—	—	—
Junior Liens	—	—	—	—	—	—
Multifamily	—	—	—	—	—	—
All Other Residential	—	—	—	—	—	—
Consumer						
Motor Vehicle	—	—	—	—	—	—
All Other Consumer	—	—	—	—	—	—
With an allowance recorded:						
Commercial						
Commercial & Industrial	11,627	—	—	14,131	—	—
Farmland	—	—	—	446	—	—
Non Farm, Non Residential	8,185	—	—	8,100	—	—
Agriculture	—	—	—	—	—	—
All Other Commercial	4,148	—	—	3,458	—	—
Residential						
First Liens	39	—	—	646	—	—
Home Equity	—	—	—	—	—	—
Junior Liens	—	—	—	—	—	—
Multifamily	—	—	—	2,770	—	—
All Other Residential	—	—	—	—	—	—
Consumer						
Motor Vehicle	—	—	—	—	—	—
All Other Consumer	—	—	—	—	—	—
TOTAL	$26,756	$—	$—	$31,030	$—	$—

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The table below presents the recorded investment in non-performing loans.

	September 30, 2014			December 31, 2013		
	Loans Past Due Over 90 Day Still	Troubled Debt		Loans Past Due Over 90 Day Still	Troubled Debt	
(Dollar amounts in thousands)	Accruing	Restructurings	Nonaccrual	Accruing	Restructurings	Nonaccrual
Commercial						
Commercial & Industrial	$—	$5,053	$6,148	$240	$6,578	$6,861
Farmland	—	—	89	—	—	99
Non Farm, Non Residential	—	4,044	4,713	489	5,687	4,918
Agriculture	—	—	310	—	—	134
All Other Commercial	—	—	1,571	—	—	1,412
Residential						
First Liens	641	5,209	4,195	1,100	4,283	4,047
Home Equity	53	—	269	40	—	195
Junior Liens	3	—	388	147	—	390
Multifamily	—	—	—	—	61	433
All Other Residential	4	—	115	1	—	130
Consumer						
Motor Vehicle	169	557	300	187	626	186
All Other Consumer	3	3	575	3	17	974
TOTAL	$873	$14,866	$18,673	$2,207	$17,252	$19,779

There were no loans covered by loss share agreements with the FDIC included in loans past due over 90 days still on accrual at September 30, 2014 but there was $580 thousand at December 31, 2013. Covered loans included in non-accrual loans are $292 thousand at September 30, 2014 and $1.1 million at December 31, 2013. Covered loans of $84 thousand at December 31, 2013 are deemed impaired and have no allowance for loan loss allocated to them. There are no covered loans deemed impaired at September 30, 2014.

The commercial and industrial loans and non farm, non residential loans included in restructured loans above are also on non-accrual.

Non-performing loans include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

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The following table presents the aging of the recorded investment in loans by past due category and class of loans.

	September 30, 2014					
	30-59 Days	60-89 Days	Greater than 90 days	Total		
(Dollar amounts in thousands)	Past Due	Past Due	Past Due	Past Due	Current	Total
Commercial						
Commercial & Industrial	$568	$454	$3,123	$4,145	$474,457	$478,602
Farmland	27	—	—	27	94,024	94,051
Non Farm, Non Residential	1,932	160	449	2,541	229,676	232,217
Agriculture	638	392	210	1,240	136,893	138,133
All Other Commercial	301	94	—	395	126,992	127,387
Residential						
First Liens	1,201	827	1,786	3,814	320,115	323,929
Home Equity	126	27	119	272	39,990	40,262
Junior Liens	225	68	218	511	31,594	32,105
Multifamily	15	—	—	15	72,914	72,929
All Other Residential	—	23	4	27	9,167	9,194
Consumer						
Motor Vehicle	2,558	473	170	3,201	246,295	249,496
All Other Consumer	135	19	3	157	20,823	20,980
TOTAL	$7,726	$2,537	$6,082	$16,345	$1,802,940	$1,819,285

	December 31, 2013					
	30-59 Days	60-89 Days	Greater than 90 days	Total		
(Dollar amounts in thousands)	Past Due	Past Due	Past Due	Past Due	Current	Total
Commercial						
Commercial & Industrial	$1,076	$266	$7,900	$9,242	$459,076	$468,318
Farmland	—	—	—	—	92,602	92,602
Non Farm, Non Residential	362	—	2,042	2,404	239,183	241,587
Agriculture	31	32	—	63	136,388	136,451
All Other Commercial	50	217	188	455	108,184	108,639
Residential						
First Liens	5,594	1,513	1,701	8,808	324,141	332,949
Home Equity	307	7	40	354	41,350	41,704
Junior Liens	392	170	471	1,033	32,269	33,302
Multifamily	103	19	400	522	66,138	66,660
All Other Residential	88	—	1	89	9,169	9,258
Consumer						
Motor Vehicle	3,579	612	227	4,418	243,146	247,564
All Other Consumer	123	22	7	152	21,636	21,788
TOTAL	$11,705	$2,858	$12,977	$27,540	$1,773,282	$1,800,822

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During the three and nine months ended September 30, 2014 and 2013, the terms of certain loans were modified as troubled debt restructurings (TDRs). The following tables present the activity for TDR's.

	2014			
(Dollar amounts in thousands)	Commercial	Residential	Consumer	Total
July 1,	9,206	4,956	559	14,721
Added	—	340	115	455
Charged Off	—	(67)	(24)	(91)
Payments	(122)	(124)	(81)	(327)
September 30,	9,084	5,105	569	14,758

	2013			
(Dollar amounts in thousands)	Commercial	Residential	Consumer	Total
July 1,	15,005	4,572	693	21,285
Added	1,561	—	41	1,602
Charged Off	—	—	—	—
Payments	(268)	(145)	(91)	(504)
September 30,	16,298	4,427	643	21,368

	2014			
(Dollar amounts in thousands)	Commercial	Residential	Consumer	Total
January 1,	12,327	4,330	644	17,301
Added	441	1,141	213	1,795
Charged Off	(1,069)	(67)	(63)	(1,199)
Payments	(2,615)	(299)	(225)	(3,139)
September 30,	9,084	5,105	569	14,758

	2013			
(Dollar amounts in thousands)	Commercial	Residential	Consumer	Total
January 1,	16,474	4,107	704	21,285
Added	1,561	780	204	2,545
Charged Off	—	(50)	(32)	(82)
Payments	(1,737)	(410)	(233)	(2,380)
September 30,	16,298	4,427	643	21,368

Modification of the terms of such loans typically include one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; or a permanent reduction of the recorded investment in the loan. No modification in 2014 or 2013 resulted in the permanent reduction of the recorded investment in the loan. Modifications involving a reduction of the stated interest rate of the loan were for periods ranging from twelve months to five years. Modifications involving an extension of the maturity date were for periods ranging from twelve months to ten years.

During the three months ended September 30, 2014 and 2013 the Corporation modified 20 and 7 loans respectively. During the nine months ended September 30, 2014 and 2013 the Corporation modified 45 and 24 loans respectively. In 2014 one of these loans was a commercial loan for $441 thousand. The remainder of the 2014 loans and all of the 2013 loans modified were smaller balance consumer and residential loans.

The Corporation has allocated $1.2 million and $4.1 million of specific reserves to customers whose loan terms have been modified in troubled debt restructurings at both September 30, 2014 and 2013, respectively. Specific reserves of $2.6 million were allocated to customers whose loan terms have been modified in troubled debt restructurings at

December 31, 2013. The

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Corporation has not committed to lend additional amounts as of September 30, 2014 and 2013 to customers with outstanding loans that are classified as troubled debt restructurings. As of September 30, 2014 and 2013 there have been no loans that have been modified in troubled debt restructurings in the past 12 months that were charged off.

Credit Quality Indicators:

The Corporation categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Corporation analyzes loans individually by classifying the loans as to credit risk. This analysis includes non-homogeneous loans, such as commercial loans, with an outstanding balance greater than $100 thousand. Any consumer loans outstanding to a borrower who had commercial loans analyzed will be similarly risk rated. This analysis is performed on a quarterly basis. The Corporation uses the following definitions for risk ratings:

Special Mention: Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

Substandard: Loans classified as substandard are inadequately protected by the current net worth and debt service capacity of the borrower or of any pledged collateral. These loans have a well-defined weakness or weaknesses which have clearly jeopardized repayment of principal and interest as originally intended. They are characterized by the distinct possibility that the institution will sustain some future loss if the deficiencies are not corrected.

Doubtful: Loans classified as doubtful have all the weaknesses inherent in those graded substandard, with the added characteristic that the severity of the weaknesses makes collection or liquidation in full highly questionable or improbable based upon currently existing facts, conditions, and values.
Furthermore, non-homogeneous loans which were not individually analyzed, but are 90+ days past due or on non-accrual are classified as substandard. Loans included in homogeneous pools, such as residential or consumer may be classified as substandard due to 90+ days delinquency, non-accrual status, bankruptcy, or loan restructuring.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans. Loans listed as not rated are either less than $100 thousand or are included in groups of homogeneous loans. As of September 30, 2014 and December 31, 2013, and based on the most recent analysis performed, the risk category of loans by class of loans are as follows:

	September 30, 2014					
(Dollar amounts in thousands)	Pass	Special Mention	Substandard	Doubtful	Not Rated	Total
Commercial						
Commercial & Industrial	$424,077	$28,816	$18,510	$2,763	$3,181	$477,347
Farmland	87,269	4,687	290	—	16	92,262
Non Farm, Non Residential	186,090	21,105	24,466	6	—	231,667
Agriculture	127,247	7,573	1,560	—	41	136,421
All Other Commercial	109,833	7,774	7,696	36	1,339	126,678
Residential						
First Liens	109,371	4,338	7,966	1,043	200,177	322,895
Home Equity	12,239	579	1,124	100	26,157	40,199
Junior Liens	8,039	176	551	64	23,177	32,007
Multifamily	68,078	3,580	1,091	—	1	72,750
All Other Residential	1,795	—	607	—	6,768	9,170

Consumer						
Motor Vehicle	10,974	383	252	12	236,817	248,438
All Other Consumer	3,290	119	75	8	17,361	20,853
TOTAL	$1,148,302	$79,130	$64,188	$4,032	$515,035	$1,810,687

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(Dollar amounts in thousands)	December 31, 2013 Pass	Special Mention	Substandard	Doubtful	Not Rated	Total
Commercial						
Commercial & Industrial	$406,650	$18,968	$30,986	$4,069	$6,426	$467,099
Farmland	86,633	3,631	347	—	445	91,056
Non Farm, Non Residential	207,115	13,408	19,719	809	—	241,051
Agriculture	128,137	6,482	105	—	71	134,795
All Other Commercial	93,515	2,297	10,038	44	2,243	108,137
Residential						
First Liens	114,074	3,834	8,498	995	204,416	331,817
Home Equity	12,883	274	1,071	113	27,295	41,636
Junior Liens	8,858	60	550	67	23,654	33,189
Multifamily	63,073	1,908	1,482	48	—	66,511
All Other Residential	3,643	—	31	—	5,550	9,224
Consumer						
Motor Vehicle	11,447	219	510	9	234,210	246,395
All Other Consumer	3,507	46	79	22	17,984	21,638
TOTAL	$1,139,535	$51,127	$73,416	$6,176	$522,294	$1,792,548

3. Securities

The amortized cost and fair value of the Corporation’s investments are shown below. All securities are classified as available-for-sale.

(Dollar amounts in thousands)	September 30, 2014 Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Government agencies	$1,413	$48	$—	$1,461
Mortgage Backed Securities - Residential	177,774	7,338	(942)	184,170
Mortgage Backed Securities - Commercial	19	1	—	20
Collateralized Mortgage Obligations	502,297	2,073	(11,458)	492,912
State and Municipal Obligations	196,431	9,303	(261)	205,473
Collateralized Debt Obligations	10,294	5,808	(28)	16,074
TOTAL	$888,228	$24,571	$(12,689)	$900,110

(Dollar amounts in thousands)	December 31, 2013 Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Government agencies	$1,623	$10	$—	$1,633
Mortgage Backed Securities-residential	191,995	7,761	(1,992)	197,764
Mortgage Backed Securities-commercial	4,642	1	(252)	4,391
Collateralized mortgage obligations	521,148	1,492	(15,899)	506,741
State and municipal	190,521	6,388	(1,922)	194,987
Collateralized debt obligations	10,968	4,695	(6,619)	9,044
TOTAL	$920,897	$20,347	$(26,684)	$914,560

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Contractual maturities of debt securities at September 30, 2014 were as follows. Securities not due at a single maturity or with no maturity date, primarily mortgage-backed securities and collateralized mortgage obligations are shown separately.

	Available-for-Sale	
(Dollar amounts in thousands)	Amortized Cost	Fair Value
Due in one year or less	$8,685	$8,776
Due after one but within five years	33,737	35,180
Due after five but within ten years	86,211	90,287
Due after ten years	79,505	88,765
	208,138	223,008
Mortgage-backed securities	680,090	677,102
TOTAL	$888,228	$900,110

There were $1 thousand in losses from investment sales realized by the Corporation for the nine months ended September 30, 2014. For the nine months ended September 30, 2013 there were $7 thousand in gains on sales of investment securities. For the three months ended September 30, 2014 and 2013 there were no gains or losses on sales of investment securities.

The following tables show the securities' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in continuous unrealized loss position, at September 30, 2014 and December 31, 2013.

	September 30, 2014					
	Less Than 12 Months		More Than 12 Months		Total	
(Dollar amounts in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage Backed Securities - Residential	$4,205	$(30)	$53,169	$(912)	$57,374	$(942)
Collateralized mortgage obligations	92,936	(637)	270,267	(10,821)	363,203	(11,458)
State and municipal obligations	817	(4)	14,799	(257)	15,616	(261)
Collateralized Debt Obligations	—	—	189	(28)	189	(28)
Total temporarily impaired securities	$97,958	$(671)	$338,424	$(12,018)	$436,382	$(12,689)

	December 31, 2013					
	Less Than 12 Months		More Than 12 Months		Total	
(Dollar amounts in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage Backed Securities - Residential	$52,524	$(1,645)	$6,022	$(347)	$58,546	$(1,992)
Mortgage Backed Securities - Commercial	—	—	4,357	(252)	4,357	(252)
Collateralized mortgage obligations	406,291	(13,979)	29,588	(1,920)	435,879	(15,899)
State and municipal obligations	43,899	(1,746)	2,305	(176)	46,204	(1,922)
Collateralized Debt Obligations	—	—	3,686	(6,619)	3,686	(6,619)
Total temporarily impaired securities	$502,714	$(17,370)	$45,958	$(9,314)	$548,672	$(26,684)

Management evaluates securities for other-than-temporary impairment ("OTTI") at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. The investment securities portfolio is evaluated for OTTI by segregating the portfolio into two general segments and applying the appropriate OTTI model.

Investment securities are generally evaluated for OTTI under FASB ASC 320, Investments - Debt and Equity Securities. However, certain purchased beneficial interests, including non-agency mortgage-backed securities, asset-backed securities, and collateralized debt obligations, that had credit ratings at the time of purchase of below AA are evaluated using the model outlined in FASB ASC 325-40, Beneficial Interests in Securitized Financial Assets.

In determining OTTI under the FASB ASC 320 model, management considers many factors, including: (1)the length of time and the extent to which the fair value has been less than cost, (2)the financial condition and near-term prospects of the issuer,

(3) whether the market decline was affected by macroeconomic conditions, and (4) whether the entity has the intent to sell the security or more likely than not will be required to sell the security before its anticipated recovery. The assessment of whether an other-than-temporary decline exists involves a high degree of subjectivity and judgment and is based on the information available to management at a point in time.

The second segment of the portfolio uses the OTTI guidance provided by FASB ASC 325 that is specific to purchased beneficial interests that, on the purchase date, were rated below AA. Under the FASB ASC 325 model, the Company compares the present value of the remaining cash flows as estimated at the preceding evaluation date to the current expected remaining cash flows. An OTTI is deemed to have occurred if there has been an adverse change in the remaining expected future cash flows.

When OTTI occurs under either model, the amount of the OTTI recognized in earnings depends on whether an entity intends to sell the security or it is more likely than not it will be required to sell the security before recovery of its amortized cost basis, less any current-period credit loss. If an entity intends to sell or it is more likely than not it will be required to sell the security before recovery of its amortized cost basis, less any current-period credit loss, the OTTI shall 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. If an entity does not intend to sell the security and it is not more likely than not that the entity will be required to sell the security before recovery of its amortized cost basis less any current-period loss, the OTTI shall be separated into the amount representing the credit loss and the amount related to all other factors. The amount of the total 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 total OTTI related to other factors is recognized in other comprehensive income, net of applicable taxes. The previous amortized cost basis less the OTTI recognized in earnings becomes the new amortized cost basis of the investment.
Gross unrealized losses on investment securities were $12.7 million as of September 30, 2014 and $26.7 million as of December 31, 2013. A majority of these losses represent negative adjustments to market value relative to the interest rate environment reflecting the increase in market rates and not losses related to the creditworthiness of the issuer. Based upon our review of the issuers, we do not believe these investments to be other than temporarily impaired. Management does not intend to sell these securities and it is not more likely than not that we will be required to sell them before their anticipated recovery.

A portion of the securities in an unrealized loss position for more than 12 months have related historically to collateralized debt obligations that were separately evaluated under FASB ASC 325-40, Beneficial Interests in Securitized Financial Assets. Based upon qualitative considerations, such as a down grade in credit rating or further defaults of underlying issuers during the quarter, and an analysis of expected cash flows, we have determined that three of the CDO's included in collateralized debt obligations were other-than-temporarily impaired, though no impairment was identified during 2014 or 2013. Those three CDO's have a contractual balance of $25.8 million at September 30, 2014 which has been reduced to a fair value of $15.9 million by $1.7 million of interest payments received, $14.0 million of cumulative OTTI charges recorded through earnings to date, and $5.8 million recorded in other comprehensive income ($3.5 million after tax effect). The severity of the OTTI recorded varies by security, based on the analysis described below, and ranges at September 30, 2014 from 28% to 93%. The losses recorded in other comprehensive income represents temporary impairment due to factors other than credit loss, mainly current market illiquidity. The issuers in these securities are primarily banks, but some of the pools do include a limited number of insurance companies. The market for these securities has continued to be very illiquid, there are very few new issuances of trust preferred securities and the credit spreads implied by current prices have increased dramatically and remain very high, resulting in significant non-credit related impairment. The Company uses the OTTI evaluation model to compare the present value of expected cash flows to the previous estimate to ensure there are no adverse changes in cash flows during the quarter. The OTTI model considers the structure and term of the CDO and the financial condition of the underlying issuers. Specifically, the model details interest rates, principal balances of note classes and underlying issuers, the timing and amount of interest and principal payments of the underlying issuers, and

the allocation of the payments to the note classes. Cash flows are projected using a forward rate LIBOR curve, as these CDOs are variable rate instruments. An average rate is then computed using this same forward rate curve to determine an appropriate discount rate (3 month LIBOR plus margin ranging from 160 to 180 basis points). The current estimate of expected cash flows is based on the most recent trustee reports and any other relevant market information including announcements of interest payment deferrals or defaults of underlying trust preferred securities. Assumptions used in the model include expected future default rates and prepayments. In addition we use the model to “stress” each CDO, or make assumptions more severe than expected activity, to determine the degree to which assumptions could deteriorate before the CDO could no longer fully support repayment of the Company’s note class.

Collateralized debt obligations include an investment in a CDO consisting of pooled trust preferred securities in which the issuers are primarily banks. This CDO with an amortized cost of $218 thousand and a fair value of $189 thousand is rated BAA3 and is the senior tranche, is not in the scope of FASB ASC 325, as it was rated high investment grade at purchase, and is not considered to be other-than-temporarily impaired based on its credit quality. Its fair value is negatively impacted by the factors described above.

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Management has consistently used Standard & Poors pricing to value these investments. There are a number of other pricing sources available to determine fair value for these investments. These sources utilize a variety of methods to determine fair value. The result is a wide range of estimates of fair value for these securities. The Standard & Poors pricing ranges from 47.2 to 87.0 while Moody Investor Service pricing ranges from 3.8 to 87.5, with others falling somewhere in between. We recognize that the Standard & Poors pricing utilized is an estimate, but have been consistent in using this source and its estimate of fair value.

The table below presents a rollforward of the credit losses recognized in earnings for the three and nine month periods ended September 30, 2014 and 2013:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollar amounts in thousands)	2014	2013	2014	2013
Beginning balance	$ 14,079	$ 14,983	$ 14,079	$ 14,983
Increases to the amount related to the credit				
Loss for which other-than-temporary was previously recognized	—	—	—	—
Reductions for increases in cash flows collected	(29)	(581)	(29)	(581)
Amounts realized for securities sold during the period	—	—	—	—
Ending balance	$ 14,050	$ 14,402	$ 14,050	$ 14,402

4. Fair Value

FASB ASC No. 820-10 establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) of identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
Level 2: Significant other observable inputs other than Level I 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.
Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The fair value of most securities available for sale is determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs) or matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs).

For those securities that cannot be priced using quoted market prices or observable inputs a Level 3 valuation is determined. These securities are primarily trust preferred securities, which are priced using Level 3 due to current market illiquidity and certain investments in state and municipal securities. The fair value of the trust preferred securities is obtained from a third party provider without adjustment. As described previously, management obtains values from other pricing sources to validate the Standard & Poors pricing that they currently utilize. The fair value of state and municipal obligations are derived by comparing the securities to current market rates plus an appropriate credit spread to determine an estimated value. Illiquidity spreads are then considered. Credit reviews are performed on each of the issuers. The significant unobservable inputs used in the fair value measurement of the Corporation's state and municipal obligations are credit spreads related to specific issuers. Significantly higher credit spread assumptions

would result in significantly lower fair value measurement. Conversely, significantly lower credit spreads would result in a significantly higher fair value measurements.

The fair value of derivatives is based on valuation models using observable market data as of the measurement date (Level 2 inputs).

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	September 30, 2014			
	Fair Value Measurements Using			
(Dollar amounts in thousands)	Level 1	Level 2	Level 3	Total
U.S. Government agencies	$—	$1,461	$—	$1,461
Mortgage Backed Securities-residential	—	184,170	—	184,170
Mortgage Backed Securities-commercial	—	20	—	20
Collateralized mortgage obligations	—	492,912	—	492,912
State and municipal	—	198,788	6,685	205,473
Collateralized debt obligations	—	—	16,074	16,074
TOTAL	$—	$877,351	$22,759	$900,110
Derivative Assets		1,053		
Derivative Liabilities		(1,053)		

	December 31, 2013			
	Fair Value Measurements Using			
(Dollar amounts in thousands)	Level 1	Level 2	Level 3	Total
U.S. Government agencies	$—	$1,633	$—	$1,633
Mortgage Backed Securities-residential	—	197,764	—	197,764
Mortgage Backed Securities-commercial	—	4,391	—	4,391
Collateralized mortgage obligations	—	506,741	—	506,741
State and municipal	—	190,462	4,525	194,987
Collateralized debt obligations	—	—	9,044	9,044
TOTAL	$—	$900,991	$13,569	$914,560
Derivative Assets		1,195		
Derivative Liabilities		(1,195)		

There were no transfers between Level 1 and Level 2 during 2014 and 2013.

The table below presents a reconciliation and income statement classification of gains and losses for all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three and nine months ended September 30, 2014 and the year ended December 31, 2013.

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		
	Three Months Ended September 30, 2014		
	State and municipal obligations	Collateralized debt obligations	Total
Beginning balance, July 1	$4,035	$14,621	$18,656
Total realized/unrealized gains or losses			
Included in earnings	—	—	—
Included in other comprehensive income	—	1,721	1,721
Purchases	4,000	—	4,000
Settlements	(1,350)	(268)	(1,618)
Ending balance, September 30	$6,685	$16,074	$22,759

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	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Nine Months Ended September 30, 2014		
	State and municipal obligations	Collateralized debt obligations	Total
Beginning balance, January 1	$4,525	$9,044	$13,569
Total realized/unrealized gains or losses			
Included in earnings	—	—	—
Included in other comprehensive income	—	7,781	7,781
Purchases	4,000	—	4,000
Settlements	(1,840)	(751)	(2,591)
Ending balance, September 30	$6,685	$16,074	$22,759

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Year Ended December 31, 2013		
	State and municipal obligations	Collateralized debt obligations	Total
Beginning balance, January 1	$9,911	$6,122	$16,033
Total realized/unrealized gains or losses			
Included in earnings	—	904	904
Included in other comprehensive income	—	3,155	3,155
Transfers	(1,186)	—	(1,186)
Settlements	(4,200)	(1,137)	(5,337)
Ending balance, December 31	$4,525	$9,044	$13,569

The transfers out of level 3 is due to securities that previously were not priced independently are now priced as other level 2 securities.

The following table presents quantitative information about recurring and non-recurring Level 3 fair value measurements at September 30, 2014.

	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range
State and municipal obligations	$6,685	Discounted cash flow	Discount rate Probability of default	3.05%-5.50% 0%
Other real estate	$4,012	Sales comparison/income approach	Discount rate for age of appraisal and market conditions	5.00%-20.00%
Impaired Loans	$8,345	Sales comparison/income approach	Discount rate for age of appraisal and market conditions	0.00%-50.00%

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The following table presents quantitative information about recurring and non-recurring Level 3 fair value measurements at December 31, 2013.

	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range
State and municipal obligations	$4,525	Discounted cash flow	Discount rate Probability of default	3.05%-5.50% 0%
Other real estate	$5,291	Sales comparison/income approach	Discount rate for age of appraisal and market conditions	5.00%-20.00%
Impaired Loans	$13,765	Sales comparison/income approach	Discount rate for age of appraisal and market conditions	0.00%-50.00%

Impaired loans disclosed in footnote 2, which are measured for impairment using the fair value of collateral, are valued at Level 3. They are carried at a fair value of $8.3 million, after a valuation allowance of $1.2 million at September 30, 2014 and at a fair value of $13.8 million, net of a valuation allowance of $3.1 million at December 31, 2013. The impact to the provision for loan losses for the three and nine months ended September 30, 2014 and September 30, 2013 was a $1.4 million decrease and $1.8 million increase in 2014 and a $639 thousand decrease and a $2.5 million increase in 2013, respectively. Other real estate owned is valued at Level 3. Other real estate owned at September 30, 2014 with a value of $4.0 million was reduced $1.2 million for fair value adjustments. At September 30, 2014 other real estate owned was comprised of $3.0 million from commercial loans and $1.0 million from residential loans. Other real estate owned at December 31, 2013 with a value of $5.3 million was reduced $1.1 million for fair value adjustments. At December 31, 2013 other real estate owned was comprised of $3.9 million from commercial loans and $1.4 million from residential loans.

Fair value is measured based on the value of the collateral securing those loans, and is determined using several methods. Generally the fair value of real estate is determined based on appraisals by qualified licensed appraisers. Appraisals for real estate generally use three methods to derive value: cost, sales or market comparison and income approach. The cost method bases value on the cost to replace current property. The market comparison evaluates the sales price of similar properties in the same market area. The income approach considers net operating income generated by the property and the investor’s required return. The final fair value is based on a reconciliation of these three approaches. If an appraisal is not available, the fair value may be determined by using a cash flow analysis, a broker’s opinion of value, the net present value of future cash flows, or an observable market price from an active market. Fair value of other real estate is based upon the current appraised values of the properties as determined by qualified licensed appraisers and the Company’s judgment of other relevant market conditions. Appraisals are obtained annually and reductions in value are recorded as a valuation through a charge to expense. The primary unobservable input used by management in estimating fair value are additional discounts to the appraised value to consider market conditions and the age of the appraisal, which are based on management’s past experience in resolving these types of properties. These discounts range from 0% to 50%. Values for non-real estate collateral, such as business equipment, are based on appraisals performed by qualified licensed appraisers or the customers financial statements. Values for non real estate collateral use much higher discounts that real estate collateral. Other real estate and impaired loans carried at fair value are primarily comprised of smaller balance properties.

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The following tables presents loans identified as impaired by class of loans as of September 30, 2014 and December 31, 2013, which are all considered Level 3.

	September 30, 2014		
(Dollar amounts in thousands)	Carrying Value	Allowance for Loan Losses Allocated	Fair Value
Commercial			
Commercial & Industrial	$1,459	$418	$1,041
Farmland	—	—	—
Non Farm, Non Residential	6,836	710	6,126
Agriculture	—	—	—
All Other Commercial	1,259	115	1,144
Residential			
First Liens	34	—	34
Home Equity	—	—	—
Junior Liens	—	—	—
Multifamily	—	—	—
All Other Residential	—	—	—
Consumer			
Motor Vehicle	—	—	—
All Other Consumer	—	—	—
TOTAL	$9,588	$1,243	$8,345

	December 31, 2013		
(Dollar amounts in thousands)	Carrying Value	Allowance for Loan Losses Allocated	Fair Value
Commercial			
Commercial & Industrial	$8,620	$1,612	$7,008
Farmland	—	—	—
Non Farm, Non Residential	7,204	1,500	5,704
Agriculture	—	—	
All Other Commercial	1,062	46	1,016
Residential			
First Liens	37	—	37
Home Equity	—	—	—
Junior Liens	—	—	—
Multifamily	—	—	—
All Other Residential	—		—
Consumer			
Motor Vehicle	—		—
All Other Consumer	—		—
TOTAL	$16,923	$3,158	$13,765

The carrying amounts and estimated fair value of financial instruments at September 30, 2014 and December 31, 2013, are shown below. Carrying amount is the estimated fair value for cash and due from banks, federal funds sold, short-term borrowings, accrued interest receivable and payable, demand deposits, short-term debt and variable-rate loans or deposits that reprice frequently and fully. Security fair values were described previously. For fixed-rate,

non-impaired loans or deposits, variable rate loans or deposits with infrequent repricing or repricing limits, and for longer-term borrowings, fair value is based on discounted cash flows using current market rates applied to the estimated life and considering credit risk. The valuation of impaired loans was described previously. Loan fair value estimates do not necessarily represent an exit price. Fair values of loans held for sale are based on

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market bids on the loans or similar loans. It was not practicable to determine the fair value of Federal Home Loan Bank stock due to restrictions placed on its transferability. For the FDIC indemnification asset the carrying value is the estimated fair value as it represents amounts to be received from the FDIC in the near term. Fair value of debt is based on current rates for similar financing. The fair value of off-balance sheet items is not considered material.

	September 30, 2014				
	Carrying	Fair Value			
(Dollar amounts in thousands)	Value	Level 1	Level 2	Level 3	Total
Cash and due from banks	$96,998	$22,198	$74,800	$—	$96,998
Federal funds sold	14,980	—	14,980	—	14,980
Securities available—for—sale	900,110	—	877,351	22,759	900,110
Restricted stock	21,075	n/a	n/a	n/a	n/a
Loans, net	1,793,818	—	—	1,825,140	1,825,140
FDIC Indemnification Asset	375	—	375	—	375
Accrued interest receivable	12,100	—	3,598	8,502	12,100
Deposits	(2,451,952)	—	(2,451,389)	—	(2,451,389)
Short—term borrowings	(59,031)	—	(59,031)	—	(59,031)
Federal Home Loan Bank advances	(87,961)	—	(88,546)	—	(88,546)
Accrued interest payable	(495)	—	(495)	—	(495)

	December 31, 2013				
	Carrying	Fair Value			
(Dollar amounts in thousands)	Value	Level 1	Level 2	Level 3	Total
Cash and due from banks	$71,033	$22,455	$48,578	$—	$71,033
Federal funds sold	4,276	—	4,276	—	4,276
Securities available—for—sale	914,560	—	900,991	13,569	914,560
Restricted stock	21,057	n/a	n/a	n/a	n/a
Loans, net	1,771,360	—	—	1,816,726	1,816,726
FDIC Indemnification Asset	1,055	—	1,055	—	1,055
Accrued interest receivable	11,554	—	3,279	8,275	11,554
Deposits	(2,458,791)	—	(2,460,197)	—	(2,460,197)
Short—term borrowings	(59,592)	—	(59,592)	—	(59,592)
Federal Home Loan Bank advances	(58,288)	—	(60,258)	—	(60,258)
Accrued interest payable	(750)	—	(750)	—	(750)

5. Short-Term Borrowings

Period–end short-term borrowings were comprised of the following:

	(000 's)	
	September 30, 2014	December 31, 2013
Federal Funds Purchased	$34,745	$30,679
Repurchase Agreements	24,286	28,913
	$59,031	$59,592

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6. Other Borrowings

Other borrowings at period-end are summarized as follows:

	(000 's) September 30, 2014	December 31, 2013
FHLB Advances	$87,961	$58,288

7. Components of Net Periodic Benefit Cost

	Three Months Ended September 30, (000's)				Nine Months Ended September 30, (000's)			
	Pension Benefits		Post-Retirement Health Benefits		Pension Benefits		Post-Retirement Health Benefits	
	2014	2013	2014	2013	2014	2013	2014	2013
Service cost	$510	$559	$13	$17	$1,530	$1,678	$40	$51
Interest cost	939	846	44	43	2,817	2,537	131	130
Expected return on plan assets	(948)	(827)	—	—	(2,845)	(2,482)		—
Amortization of transition obligation	—	—	—	15		—		44
Net amortization of prior service cost	(2)	(4)	—	—	(7)	(12)		—
Net amortization of net (gain) loss	190	523	—	—	569	1,568	(1)	—
Net Periodic Benefit Cost	$689	$1,097	$57	$75	$2,064	$3,289	$170	$225

Employer Contributions

First Financial Corporation previously disclosed in its financial statements for the year ended December 31, 2013 that it expected to contribute $3.2 million and $1.2 million respectively to its Pension Plan and ESOP and $248 thousand to the Post Retirement Health Benefits Plan in 2014. Contributions of $2.5 million have been made to the Pension Plan through the first nine months of 2014. Contributions of $158 thousand have been made through the first nine months of 2014 for the Post Retirement Health Benefits plan. No contributions have been made in 2014 for the ESOP. The Pension plan was frozen for most employees at the end of 2012 and for those employees there will be discretionary contributions to the ESOP plan and a 401K plan in place of the former Pension benefit. In the first nine months of 2014 and 2013 there has been $1.0 million and $1.1 million of expense accrued for potential contributions to these alternative retirement benefit options.

8. New accounting standards

ASU 2014-04 “Receivables (Topic 310) – Troubled Debt Restructurings by Creditors” (“ASU 2014-04”) amends Topic 310 “Receivables” to clarify the terms defining when an in substance repossession or foreclosure occurs, which determines when the receivable should be derecognized and the real estate property is recognized. ASU 2013-04 is effective for annual periods and interim periods within those annual periods beginning after December 15, 2014. It is not expected

to have a significant impact on our financial statements.

In May 2014, the FASB and the International Accounting Standards Board (the "IASB") jointly issued a comprehensive new revenue recognition standard that will supersede nearly all existing revenue recognition guidance under GAAP and International Financial Reporting Standards ("IFRS"). Previous revenue recognition guidance in GAAP comprised broad revenue recognition concepts together with numerous revenue requirements for particular industries or transactions, which sometimes resulted in different accounting for economically similar transactions. In contrast, IFRS provided limited revenue recognition guidance and, consequently, could be difficult to apply to complex transactions. Accordingly, the FASB and the IASB initiated a joint project to clarify the principles for recognizing revenue and to develop a common revenue standard for U.S. GAAP and IFRS that would: (1) Remove inconsistencies and weaknesses in revenue requirements; (2) Provide a more robust framework for addressing revenue issues; (3) Improve comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets; (4) Provide more useful information to users of financial statements through improved disclosure requirements; and (5) Simplify the preparation of financial statements by reducing the number of

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requirements to which an entity must refer. To meet those objectives, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers." The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies generally will be required to use more judgment and make more estimates than under current guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. The standard is effective for public entities for interim and annual periods beginning after December 15, 2016; early adoption is not permitted. For financial reporting purposes, the standard allows for either full retrospective adoption, meaning the standard is applied to all of the periods presented, or modified retrospective adoption, meaning the standard is applied only to the most current period presented in the financial statements with the cumulative effect of initially applying the standard recognized at the date of initial application. The Corporation is currently evaluating the provisions of ASU No. 2014-09 and will be closely monitoring developments and additional guidance to determine the potential impact the new standard will have on the Corporation's Consolidated Financial Statements.

In August 2014, the FASB issued ASU 2014-14, Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure. This ASU requires that a mortgage loan be derecognized and that a separate other receivable be recognized if certain conditions are met in the case of government guarantees. The amendments are effective for annual periods, and interim periods within those years, beginning after December 15, 2014. The adoption of this ASU is not expected to have a significant impact on the Corporation's financial statements.

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9. Acquisitions and FDIC Indemnification Asset

On August 16, 2013, the Bank completed a Purchase and Assumption Agreement with Bank of America, National Association. Under the terms of the Agreement, First Financial Bank purchased certain assets and assumed certain liabilities of 7 branch offices and 2 drive-up facilities of Bank of America in central and southern Illinois. The acquisition was beneficial in increasing the presence of the bank in the Illinois market. First Financial received cash in the amount of $177.7 million. The acquisition consisted of loans with a fair value of $1.9 million, fixed assets with a value of $5.9 million, a customer related core deposit intangible asset of $2.2 million, deposits with a value of $189.3 million and other liabilities of $0.3 million. Based upon the acquisition date fair values of the net assets acquired, goodwill of $1.9 million was recorded, all of which is expected to be tax deductible.

On December 30, 2011, the Bank completed a purchase and assumption agreement with PNB Holding Co (PNB), an Illinois corporation, to purchase all of the issued and outstanding stock of Freestar Bank, National Association, and assume certain liabilities of PNB (the “Transaction”). Immediately following the acquisition of the stock of Freestar Bank, First Financial merged Freestar Bank with and into its wholly-owned subsidiary, First Financial Bank, National Association.

The acquisition provided a strategic entry into the Champaign-Urbana, Bloomington-Normal and Pontiac, Illinois markets. Each of these markets are characterized by higher growth rates.

On July 2, 2009, the Bank entered into a purchase and assumption agreement with the Federal Deposit Insurance Corporation (“FDIC”) to assume all of the deposits (excluding brokered deposits) and certain assets of The First National Bank of Danville, a full-service commercial bank headquartered in Danville, Illinois, that had failed and been placed in receivership with the FDIC. Under the loss-sharing agreement (“LSA”), the Bank will share in the losses on assets covered under the agreement (referred to as covered assets). On losses up to $29 million, the FDIC has agreed to reimburse the Bank for 80 percent of the losses. On losses exceeding $29 million, the FDIC has agreed to reimburse the Bank for 95 percent of the losses. The loss-sharing agreement is subject to following servicing procedures as specified in the agreement with the FDIC. Loans acquired that are subject to the loss-sharing agreement with the FDIC are referred to as covered loans for disclosure purposes. Since the acquisition date the Bank has been reimbursed $19.0 million for losses and carrying expenses and currently carries a balance of $375 thousand in the indemnification asset. The loss share agreement as it relates to non-single family loans expired at the end of the third quarter of 2014 and there is no estimate for future potential losses at September 30, 2014 included in the current balance of the indemnification asset. The balance of loans covered by the loss share agreement excluding AS 310-30 loans at September 30, 2014 and December 31, 2013 totaled $7.8 million and $18.5 million, respectively.

FASB ASC 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality, applies to a loan with evidence of deterioration of credit quality since origination, acquired by completion of a transfer for which it is probable, at acquisition, that the investor will be unable to collect all contractually required payments receivable. FASB ASC 310-30 prohibits carrying over or creating an allowance for loan losses upon initial recognition. The carrying amount of covered assets at September 30, 2014 and 2013, consisted of loans accounted for in accordance with FASB ASC 310-30 are shown in the following table:

	Three Months Ended September 30, 2014		
(Dollar amounts in thousands)	Commercial	Consumer	Total
Beginning balance	$7,337	$1,885	$9,222
Discount accretion	—	—	—
Disposals	(1,569)	(108)	(1,677)
ASC 310-30 Loans	$5,768	$1,777	$7,545

	Nine Months Ended September 30, 2014		
(Dollar amounts in thousands)	Commercial	Consumer	Total
Beginning balance	$7,676	$2,409	$10,085
Discount accretion	—	—	—
Disposals	(1,908)	(632)	(2,540)
ASC 310-30 Loans	$5,768	$1,777	$7,545

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	Three Months Ended September 30, 2013		
(Dollar amounts in thousands)	Commercial	Consumer	Total
Beginning balance	$11,519	$3,006	$14,525
Discount accretion	—	(5)	(5)
Disposals	(1,382)	(344)	(1,726)
ASC 310-30 Loans	$10,137	$2,657	$12,794

	Nine Months Ended September 30, 2013		
(Dollar amounts in thousands)	Commercial	Consumer	Total
Beginning balance	$13,654	$3,464	$17,118
Discount accretion	(24)	(13)	(37)
Disposals	(3,493)	(794)	(4,287)
ASC 310-30 Loans	$10,137	$2,657	$12,794

The rollforward of the FDIC Indemnification asset is as follows:

	Three Months Ended September 30,	Nine Months Ended September 30,	Year Ended December 31,
(Dollar amounts in thousands)	2014	2014	2013
Beginning balance	$420	$1,055	$2,632
Accretion	—	—	—
Net changes in losses and expenses	329	(30)	(1,225)
Reimbursements from the FDIC	(374)	(650)	(352)
TOTAL			