FIRST FINANCIAL CORP /IN/
Form 10-Q
August 10, 2009

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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 June 30, 2009
Commission File Number 0-16759
FIRST FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

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

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

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

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

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

As of July 31, 2009, the registrant had outstanding 13,116,630 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)

	June 30, 2009 (Unaudited)	December 31, 2008
ASSETS		
Cash and due from banks	$ 54,664	$ 67,298
Federal funds sold and short-term investments	5,500	9,530
Securities available-for-sale	587,454	596,915
Loans:		
Commercial, financial and agricultural	513,436	499,636
Real estate construction	25,118	26,137
Real estate mortgage	667,893	628,027
Installment	324,788	302,977
Lease financing	2,000	1,878
	1,533,235	1,458,655
Less:		
Unearned Income	(87)	(128)
Allowance for loan losses	(17,037)	(16,280)
	1,516,111	1,442,247
Credit card loans held-for-sale	11,924	12,800
Restricted Stock	26,227	26,227
Accrued interest receivable	11,907	13,081
Premises and equipment, net	31,728	32,145
Bank-owned life insurance	63,029	62,107
Goodwill	7,102	7,102
Other intangible assets	1,300	1,512
Other real estate owned	2,920	3,200
Other assets	31,987	28,511
TOTAL ASSETS	$ 2,351,853	$ 2,302,675
LIABILITIES AND SHAREHOLDERS EQUITY		
Deposits:		
Noninterest-bearing	$ 235,431	$ 236,249
Interest-bearing:		
Certificates of deposit of $100 or more	206,935	211,107
Other interest-bearing deposits	1,142,260	1,116,142
	1,584,626	1,563,498
Short-term borrowings	95,569	21,500
Other borrowings	332,824	385,153

Other liabilities	46,177	45,680
TOTAL LIABILITIES	2,059,196	2,015,831
Shareholders equity		
Common stock, $.125 stated value per share;		
Authorized shares-40,000,000		
Issued shares-14,450,966		
Outstanding shares-13,116,630 in 2009 and 13,098,615 in 2008	1,806	1,806
Additional paid-in capital	68,654	68,654
Retained earnings	269,696	263,115
Accumulated other comprehensive income (loss)	(13,714)	(12,946)
Treasury shares at cost-1,334,336 in 2009 and 1,352,351 in 2008	(33,785)	(33,785)
TOTAL SHAREHOLDERS EQUITY	292,657	286,844
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 2,351,853	$ 2,302,675

See accompanying notes.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009 (unaudited)	2008 (unaudited)	2009 (unaudited)	2008 (unaudited)
INTEREST INCOME:				
Loans, including related fees	$ 22,730	$ 24,681	$ 45,637	$ 50,457
Securities:				
Taxable	5,819	6,385	11,987	12,382
Tax-exempt	1,648	1,581	3,289	3,178
Other	461	624	931	1541
TOTAL INTEREST INCOME	30,658	33,271	61,844	67,558
INTEREST EXPENSE:				
Deposits	5,573	8,376	11,777	18,593
Short-term borrowings	137	200	280	567
Other borrowings	4,372	4,735	8,748	9,482
TOTAL INTEREST EXPENSE	10,082	13,311	20,805	28,642
NET INTEREST INCOME	20,576	19,960	41,039	38,916
Provision for loan losses	2,860	1,735	5,690	3,660
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	17,716	18,225	35,349	35,256
NON-INTEREST INCOME:				
Trust and financial services	932	990	1,946	2,109
Service charges and fees on deposit accounts	2,767	2,988	5,264	5,780
Other service charges and fees	1,652	1,477	3,184	2,871
Securities gains/(losses), net	2	1	2	355
Insurance commissions	1,577	1,637	3,016	3,196
Gain on sales of mortgage loans	608	185	1184	410
Other	177	363	844	1,569
TOTAL NON-INTEREST INCOME	7,715	7,641	15,440	16,290
OTHER THAN TEMPORARY IMPAIRMENT				
Total Impairment Losses	(22,532)		(25,511)	
Loss recognized in other comprehensive loss	20,946		20,946	

Net impairment loss recognized in earnings		(1,586)				(4,565)		
NON-INTEREST EXPENSE:								
Salaries and employee benefits		10,014		10,125		20,194		20,458
Occupancy expense		1,027		988		2,119		2,037
Equipment expense		1,109		1,126		2,230		2,239
FDIC Expense		1,601		55		1,907		99
Other		4,251		3,936		8,249		7,821
TOTAL NON-INTEREST EXPENSE		18,002		16,230		34,699		32,654
INCOME BEFORE INCOME TAXES		5,843		9,636		11,525		18,892
Provision for income taxes		1,222		2,493		2,374		4,799
NET INCOME	$	4,621	$	7,143	$	9,151	$	14,093
PER SHARE DATA								
Basic and Diluted	$	0.35	$	0.55	$	0.70	$	1.07
Dividends Per Share	$	0.45	$	0.44	$	0.45	$	0.44
Weighted average number of shares outstanding (in thousands)		13,117		13,102		13,117		13,112

See accompanying notes.

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FIRST FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY
Three Months Ended
June 30, 2009, and 2008
(Dollar amounts in thousands, except per share data)
(Unaudited)

	Common Stock	Additional Capital	Retained Earnings	Accoumulated Other Comprehensive Income/(Loss)	Treasury Stock	Total
Balance, April 1, 2009	$ 1,806	$ 68,654	$ 267,645	$ (8,403)	$ (33,785)	$ 295,917
Comprehensive income:						
Net income			4,621			4,621
Change in net unrealized gains/(losses) on securities available for-sale				(2,069)		(2,069)
Change in net unrealized gains/ (losses) on retirement plans				91		91
Total comprehensive income/(loss)						2,643
Cumulative Effect of change in accounting principle, adoption of FSP SFAS 115-2 and SFAS 124-2, net of tax			3,333	(3,333)		
Cash Dividends, $.45 per share			(5,903)			(5,903)
Balance, June 30, 2009	$ 1,806	$ 68,654	$ 269,696	$ (13,714)	$ (33,785)	$ 292,657
Balance, April 1, 2008	$ 1,806	$ 68,212	$ 256,961	$ 292	$ (34,043)	$ 293,228
Comprehensive income:						
Net income			7,143			7,143
Change in net unrealized gains/(losses) on securities available for-sale				(12,872)		(12,872)
Change in net unrealized gains/ (losses) on retirement plans				128		128
Total comprehensive income/(loss)						(5,601)
Cash Dividends, $.44 per share			(5,763)			(5,763)
Treasury stock purchase					(147)	(147)
Balance, June 30, 2008	$ 1,806	$ 68,212	$ 258,341	$ (12,452)	$ (34,190)	$ 281,717

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FIRST FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY
Six Months Ended
June 30, 2009, and 2008
(Dollar amounts in thousands, except per share data)
(Unaudited)

	Common Stock	Additional Capital	Retained Earnings	Accoumulated Other Comprehensive Income/(Loss)	Treasury Stock	Total
Balance, January 1, 2009	$ 1,806	$ 68,654	$ 263,115	$ (12,946)	$ (33,785)	$ 286,844
Comprehensive income:						
Net income			9,151			9,151
Change in net unrealized gains/(losses) on securities available for-sale				2,383		2,383
Change in net unrealized gains/ (losses) on retirement plans				182		182
Total comprehensive income/(loss)						11,716
Cumulative Effect of change in accounting principle, adoption of FSP SFAS 115-2 and SFAS 124-2, net of tax			3,333	(3,333)		
Cash Dividends, $.45 per share			(5,903)			(5,903)
Balance, June 30, 2009	$ 1,806	$ 68,654	$ 269,696	$ (13,714)	$ (33,785)	$ 292,657
Balance, January 1, 2008	$ 1,806	$ 68,212	$ 250,011	$ (5,181)	$ (33,156)	$ 281,692
Comprehensive income:						
Net income			14,093			14,093
Change in net unrealized gains/(losses) on securities available for-sale				(7,527)		(7,527)
Change in net unrealized gains/ (losses) on retirement plans				256		256
Total comprehensive income/(loss)						6,822
Cash Dividends, $.44 per share			(5,763)			(5,763)
Treasury stock purchase					(1,034)	(1,034)

Balance, June 30, 2008	$ 1,806	$ 68,212	$ 258,341	$ (12,452)	$ (34,190)	$ 281,717

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

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	$ 9,151	$ 14,093
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization (accretion) of premiums and discounts on investments	(1,501)	(1,390)
Provision for loan losses	5,690	3,660
Securities (gains) losses	4,563	(355)
(Gain) loss on sale of other real estate	36	(57)
Depreciation and amortization	1,821	1,715
Other, net	(5,281)	1,892
NET CASH FROM OPERATING ACTIVITIES	14,479	19,558
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of securities available-for-sale		355
Proceeds from sales of restricted stock		2,386
Calls, maturities and principal reductions on securities available-for-sale	58,507	48,722
Purchases of securities available-for-sale	(46,989)	(108,399)
Loans made to customers, net of repayment	(79,917)	(21,722)
Proceeds from sales of other real estate owned	1,483	1,009
Net change in federal funds sold	4,030	(144)
Additions to premises and equipment	(1,192)	(1,411)
NET CASH FROM INVESTING ACTIVITIES	(64,078)	(79,204)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net change in deposits	21,128	81,114
Net change in short-term borrowings	74,069	1,530
Dividends paid	(5,903)	(5,785)
Purchase of treasury stock		(1,034)
Proceeds from other borrowings	70,000	56,000
Repayments on other borrowings	(122,329)	(61,452)
NET CASH FROM FINANCING ACTIVITIES	36,965	70,373
NET CHANGE IN CASH AND CASH EQUIVALENTS	(12,634)	10,727

CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		67,298		70,082
CASH AND CASH EQUIVALENTS, END OF PERIOD	$	54,664	$	80,809

See accompanying notes.

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FIRST FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The accompanying June 30, 2009 and 2008 consolidated financial statements are unaudited. The December 31, 2008 consolidated financial statements are as reported in the First Financial Corporation (the Corporation) 2008 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 2008 annual report filed with the Securities and Exchange Commission as an exhibit to Form 10-K filed for the fiscal year ended December 31, 2008.

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.

2. Allowance for Loan Losses

The activity in the Corporation s allowance for loan losses is shown in the following analysis:

	June 30,	
(Dollar amounts in thousands)	2009	2008
Balance at beginning of year	$ 16,280	$ 15,351
Provision for loan losses	5,690	3,660
Recoveries of loans previously charged off	1,087	1,441
Loans charged off	(6,020)	(4,899)
BALANCE AT END OF PERIOD	$ 17,037	$ 15,553

A loan is considered to be impaired when, based upon current information and events, it is probable that the Corporation will be unable to collect all amounts due according to the contractual terms of the loan. Large groups of smaller balance homogeneous loans, such as consumer, residential real estate and even some commercial loans, are collectively evaluated for impairment and, accordingly, they are not separately identified for impairment disclosures. Impairment is primarily measured based on the fair value of the loan s collateral. The following table summarizes impaired loan information:

	(000 s)	
	June 30, 2009	December 31, 2008
Impaired Loans with related allowance for loan losses calculated under SFAS No. 114	$ 20,690	$ 16,959
Impaired Loans with no related allowance for loan losses	1,350	
	$ 22,040	$ 16,959
Amount of allowance allocated to impaired loans	$ 3,898	$ 4,735

Interest payments on impaired loans are typically applied to principal unless collection of the principal amount is deemed to be fully assured, in which case interest is recognized on a cash basis.

3. Securities

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

	(000 s) June 30, 2009			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
United States Government entity mortgage-backed securities	$ 149	$ 3	$ 0	$ 152
Mortgage Backed Securities Residential	346,978	11,562	286	358,254
Collateralized Mortgage Obligations	64,974	2,150	0	67,124
State and Municipal Obligations	145,193	3,061	1,766	146,488
Collateralized Debt Obligations	25,518	0	22,562	2,956
Other Securities	7,005	0	576	6,429
Equity Securities	5,662	1,790	1,401	6,051
	$ 595,479	$ 18,566	$ 26,591	$ 587,454

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	(000 s) December 31, 2008			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
United States Government entity mortgage-backed securities	$ 148	$ 6	$ 0	$ 154
Mortgage Backed Securities Residential	354,308	11,179	10	365,477
Collateralized Mortgage Obligations	68,838	1,389		70,227
State and Municipal Obligations	143,224	2,439	1,822	143,841
Collateralized Debt Obligations	22,177		20,341	1,836
Other Securities	9,409		612	8,797
Equity Securities	5,649	2,097	1,163	6,583
	$ 603,753	$ 17,110	$ 23,948	$ 596,915

Contractual maturities of debt securities at June 30, 2009 were as follows. Securities not due at a single maturity or with no maturity date, primarily mortgage-backed and equity securities, are shown separately.

	June 30, 2009 Available-for-Sale	
(Dollar amounts in thousands)	Amortized Cost	Fair Value
Due in one year or less	$ 10,820	$ 10,928
Due after one but within five years	45,610	46,493
Due after five but within ten years	39,416	40,148
Due after ten years	146,844	125,428
	242,690	222,997
Mortgage-backed securities and equities	352,789	364,457
TOTAL	$ 595,479	$ 587,454

There were no gains or losses realized by the Corporation on investment sales for the six months ended June 30, 2009 or during the year ended December 31, 2008.

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 June 30, 2009 and December 31, 2008.

	June 30, 2009					
	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	$ 15,221	$ (214)	$ 7	$ 0	$ 15,228	$ (214)
Collateralized mortgage obligations	5,569	(70)	110	(3)	$ 5,679	$ (73)
State and municipal obligations	45,287	(1,292)	4,963	(473)	$ 50,250	$ (1,765)

Collateralized Debt Obligations			2,956	(22,562)	$ 2,956	$ (22,562)
Other Securities	0		6,429	(576)	$ 6,429	$ (576)
Equities	373	(92)	1,500	(1,309)	$ 1,873	$ (1,401)
Total temporarily impaired securities	$ 66,450	$ (1,668)	$ 15,965	$ (24,923)	$ 82,415	$ (26,591)

	December 31, 2008					
	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	$ 1,735	$ (7)	$ 84	$ (3)	$ 1,819	$ (10)
State and municipal obligations	51,011	(1,797)	321	(25)	51,332	(1,822)
Collateralized Debt Obligations			4,239	(20,341)	4,239	(20,341)
Other Securities	6,394	(612)			6,394	(612)
Equities	1,668	(1,163)	0	0	1,668	(1,163)
Total temporarily impaired securities	$ 60,808	$ (3,579)	$ 4,644	$ (20,369)	$ 65,452	$ (23,948)

Gross unrealized losses on investment securities were $26.6 million as of June 30, 2009 and $23.9 million as of December 31, 2008. A majority of these losses represent negative adjustments to market value relative to the rate of interest paid on the securities and not losses related to the creditworthiness of the issuer. Unrealized losses on equity securities relate to investments in bank stocks held at the holding company. Bank stock values have been negatively impacted by the current economic environment and market pessism. The largest part of this unrealized loss ($991 or 71%) relates to the Corporations ownership of stock in Fifth Third Corporation. The stock price of this issuer has improved since last quarter and supports that the decline in value in temporary. 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 significant portion of this relates to collateralized debt obligations that were separately evaluated under EITF 99-20, Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests that Continue to be Held by a Transferor in Securitized Financial Assets.

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 classified as available for sale or held-to-maturity are generally evaluated for OTTI under Statement of Financial Accounting Standards (SFAS) No. 115, *Accounting for Certain Investments in 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 EITF Issue No. 99-20, *Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests that Continue to be Held by a Transfer in Securitized Financial Assets.*

In determining OTTI under the SFAS No. 115 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 EITF 99-20 that is specific to purchased beneficial interests that, on the purchase date, were rated below AA. Under the EITF 99-20 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.

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 determined that three CDO s included in corporate obligations were other-than-temporarily impaired and wrote our investments in those CDO s totaling $24.45 million down to their present value of expected cash flows through earnings of $22.86 million at June 30, 2009 to properly reflect credit losses associated those CDO s. The issuers in these securities are primarily banks, but some of the pools do include a limited number of insurance companies. 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. We assume no recoveries on defaults and treat all interest payment deferrals as defaults. 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.

Corporate obligations include two additional investments in CDOs consisting of pooled trust preferred securities in which the issuers are primarily banks. One of these CDOs with a par value of $2.3 million is rated BAA1, is not in the scope of EITF 99-20 and is not considered to be other-than-temporarily impaired based on its credit quality. The other CDO, totaling $305 thousand in book value and $60.7 thousand in market value, is rated Caa1 and is included in the scope of EITF 99-20. At June 30, 2009, the EITF 99-20 cash flow projections indicated no adverse change in this CDO and the stress analyses continued to indicate that the collateral position is more than sufficient to cover projected future defaults. Therefore, we believe the unrealized losses on this CDO relate to market conditions and this investment is not considered other-than-temporarily impaired as of June 30, 2009.

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The table below presents a rollforward of the credit losses recognized in earnings for the three month period ended June 30, 2009:

Beginning balance, April 1, 2009	$	2,979
Amounts related to credit loss for which an other-than-temporary impairment was not previously recognized		1,192
Additions/Subtractions		
Amounts realized for securities sold during the period		
Amounts related to securities for which the company intends to sell or that it will be more likely than not that the company will be required to sell prior to recovery of amortized cost basis		
Reductions for increase in cash flows expected to be collected that are recognized over the remaining life of the security		
Increases to the amount related to the credit loss for which other-than-temporary was previously recognized		394
Ending balance, June 30, 2009	$	4,565

4. Fair Value

Statement of Financial Accounting Standard (SFAS) No. 157 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 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. The fair value of these securities is computed based upon discounted cash flows estimated using payment, default and recovery assumptions believed to reflect the assumptions of market participants. Cash flows are discounted at appropriate market rates, including consideration of credit spreads and illiquidity discounts.

	(000 s) Fair Value Measurements Using			
	June 30, 2009		December 31, 2008	
Securities available-for-sale (1)				
Level 1	$	2,329	$	2,827
Level 2		578,846		586,094

Level 3		6,679		7,994
Carrying Value	$	587,854	$	596,915

(1) The fair value of securities reported using Level 1 inputs include U.S. Treasuries for which quoted market prices for identical assets are readily available, and Level 3 inputs include certain investments in bank equities and collateralized debt obligations for which Level 1 and Level 2 inputs are not available.

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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 six months ended June 30, 2009 and 2008.

	(000 s) Fair Value Measurements Using Significant Unobservable Inputs (Level 3)			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Beginning Balance	$ 7,161	$ 31,833	$ 7,994	$ 33,745
Total gains or losses (realized/unrealized)	(482)	(3,427)	(1,263)	(5,101)
Purchase				
Settlements				
Paydowns and Maturities			(52)	(238)
Transfers into Level 3				
Ending Balance	$ 6,679	$ 28,406	$ 6,679	$ 28,406

Changes in unrealized gains and losses recorded in earnings for the six months ended June 30, 2009 for Level 3 assets and liabilities that are still held at June 30, 2009 were approximately $4.6 million.

All impaired loans disclosed in footnote 2 are valued at Level 3 and are carried at a fair value of $18.1 million, net of a valuation allowance of $3.9 million at June 30, 2009. At December 31, 2008 impaired loans valued at Level 3 were carried at a fair value of $12.2 million, net of a valuation allowance of $4.7 million The impact to the provision for loan losses was $2.2 million for the six months ended June 30, 2009, and was $3.7 million for the year ended December 31, 2008. 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. 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 on non real estate loans is determined using similar methods. In addition, business equipment may be valued by using the net book value from the business financial statements.

In accordance with FSP FAS 107-1, the carrying amounts and estimated fair value of financial instruments at June 30, 2009 and December 31, 2008, 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 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 credit risk. Fair values of loans held for sale are based on 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. Fair value of debt is based on current rates for similar financing. The fair value of off-balance sheet items is not considered material.

The carrying amount and estimated fair value of financial instruments are presented in the table below and were determined based on the above assumptions:

(Dollar amounts in thousands)	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and due from banks $	54,664	54,664	67,298	67,298
Federal funds sold	5,500	5,500	9,530	9,530

Securities available for sale	587,454	587,454	596,915	596,915
Loans, net *	1,528,035	1,536,457	1,455,047	1,457,842
Accrued interest receivable	11,907	11,907	13,081	13,081
Deposits	(1,584,626)	(1,574,121)	(1,563,498)	(1,554,912)
Short term borrowings	(95,569)	(95,569)	(21,500)	(21,500)
Federal Home Loan Bank advances	(326,224)	(344,101)	(378,553)	(390,296)
Other borrowings	(6,600)	(6,600)	(6,600)	(6,600)
Accrued interest payable	(3,035)	(3,035)	(3,871)	(3,871)

* includes credit card loans held for sale

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5. Short-Term Borrowings

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

	(000 s) June 30, 2009	(000 s) December 31, 2008
Federal Funds Purchased	$ 72,764	$ 1,111
Repurchase Agreements	19,923	19,405
Note Payable U.S. Government	2,882	984
	$ 95,569	$ 21,500

6. Other Borrowings

Other borrowings at period-end are summarized as follows:

	(000 s) June 30, 2009	(000 s) December 31, 2008
FHLB Advances	$ 326,224	$ 378,553
City of Terre Haute, Indiana economic development revenue bonds	6,600	6,600
	$ 332,824	$ 385,153

7. Components of Net Periodic Benefit Cost

	Three Months Ended June 30, (000 s)				Six Months Ended June 30, (000 s)			
	Pension Benefits		Post-Retirement Health Benefits		Pension Benefits		Post-Retirement Health Benefits	
	2009	2008	2009	2008	2009	2008	2009	2008
Service cost	$ 768	$ 758	$ 27	$ 31	$ 1,536	$ 1,515	$ 55	$ 62
Interest cost	693	727	60	60	1,387	1,454	120	119
Expected return on plan assets	(911)	(823)			(1,822)	(1,646		