FIRST FINANCIAL CORP /IN/
Form 10-Q
August 02, 2017
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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, 2017

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 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 ¨
Emerging growth company ¨	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 7(a)(2)(B) of the Securities Act. ¨

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 July 31, 2017, the registrant had outstanding 12,223,750 shares of common stock, without par value.

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FIRST FINANCIAL CORPORATION

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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, 2017 (unaudited)	December 31, 2016
ASSETS		
Cash and due from banks	$55,379	$75,012
Federal funds sold	—	6,952
Securities available-for-sale	851,577	853,725
Loans:		
Commercial	1,107,658	1,106,182
Residential	429,827	423,911
Consumer	316,542	305,881
	1,854,027	1,835,974
(Less) plus:		
Net deferred loan costs	3,003	3,206
Allowance for loan losses	(19,680)	(18,773)
	1,837,350	1,820,407
Restricted stock	10,369	10,359
Accrued interest receivable	11,564	12,311
Premises and equipment, net	48,296	49,240
Bank-owned life insurance	84,343	83,737
Goodwill	34,355	34,355
Other intangible assets	1,857	2,109
Other real estate owned	2,384	2,531
Other assets	37,214	37,789
TOTAL ASSETS	$2,974,688	$2,988,527
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest-bearing	$415,945	$564,092
Interest-bearing:		
Certificates of deposit exceeding the FDIC insurance limits	42,820	43,759
Other interest-bearing deposits	1,968,958	1,820,675
	2,427,723	2,428,526
Short-term borrowings	51,880	80,989
FHLB advances	132	132
Other liabilities	60,499	64,485
TOTAL LIABILITIES	2,540,234	2,574,132
Shareholders' equity		
Common stock, $.125 stated value per share;		
Authorized shares-40,000,000		
Issued shares-14,595,320 in 2017 and 14,578,758 in 2016		
Outstanding shares-12,223,750 in 2017 and 12,216,712 in 2016	1,821	1,820
Additional paid-in capital	74,877	74,525

Retained earnings	433,435	421,826
Accumulated other comprehensive loss	(5,564)	(14,164)
Less: Treasury shares at cost-2,371,570 in 2017 and 2,362,046 in 2016	(70,115)	(69,612)
TOTAL SHAREHOLDERS’ EQUITY	434,454	414,395
TOTAL LIABILITIES AND SHAREHOLDERS’ EQUITY	$2,974,688	$2,988,527

See accompanying notes.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
INTEREST INCOME:				
Loans, including related fees	$22,325	$ 21,271	$44,266	$ 42,455
Securities:				
Taxable	3,630	3,694	7,387	7,525
Tax-exempt	1,843	1,818	3,670	3,640
Other	330	367	651	731
TOTAL INTEREST INCOME	28,128	27,150	55,974	54,351
INTEREST EXPENSE:				
Deposits	1,471	1,030	2,746	2,017
Short-term borrowings	73	26	117	49
Other borrowings	24	35	44	69
TOTAL INTEREST EXPENSE	1,568	1,091	2,907	2,135
NET INTEREST INCOME	26,560	26,059	53,067	52,216
Provision for loan losses	1,040	435	2,636	1,270
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	25,520	25,624	50,431	50,946
NON-INTEREST INCOME:				
Trust and financial services	1,149	1,292	2,466	2,626
Service charges and fees on deposit accounts	3,004	2,601	5,781	5,105
Other service charges and fees	3,114	3,149	6,299	6,149
Securities gains/(losses), net	15	10	17	13
Insurance commissions	36	33	58	2,305
Gain on sale of certain assets and liabilities of insurance brokerage operation	—	—	—	13,021
Gain on sales of mortgage loans	393	481	720	885
Other	402	648	3,821	476
TOTAL NON-INTEREST INCOME	8,113	8,214	19,162	30,580
NON-INTEREST EXPENSE:				
Salaries and employee benefits	12,519	13,142	25,895	26,737
Occupancy expense	1,761	1,722	3,529	3,453
Equipment expense	1,835	1,808	3,632	3,645
FDIC Expense	228	403	461	854
Other	5,745	5,685	11,148	11,418
TOTAL NON-INTEREST EXPENSE	22,088	22,760	44,665	46,107
INCOME BEFORE INCOME TAXES	11,545	11,078	24,928	35,419
Provision for income taxes	3,193	2,846	7,207	13,512
NET INCOME	8,352	8,232	17,721	21,907
OTHER COMPREHENSIVE INCOME				
Change in unrealized gains/(losses) on securities, net of reclassifications and taxes	5,045	1,262	8,233	5,300
Change in funded status of post retirement benefits, net of taxes	184	304	367	608

COMPREHENSIVE INCOME	$13,581	$ 9,798	$26,321	$ 27,815
PER SHARE DATA				
Basic and Diluted Earnings per Share	$0.68	$ 0.68	$1.45	$ 1.76
Weighted average number of shares outstanding (in thousands)	12,224	12,236	12,221	12,441

See accompanying notes.

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FIRST FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
Three Months Ended
June 30, 2017, and 2016
(Dollar amounts in thousands, except per share data)
(Unaudited)

	Common Stock	Additional Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Treasury Stock	Total
Balance, April 1, 2016	$ 1,818	$ 73,566	$409,308	$ (5,059)	$(67,721)	$411,912
Net income	—	—	8,232	—	—	8,232
Other comprehensive income	—	—	—	1,566	—	1,566
Omnibus Equity Incentive Plan	—	171	—	—	—	171
Treasury shares purchased (72,174 shares)	—	—	$—	$ —	(2,540)	(2,540)
Cash dividends, $.49 per share			$(6,117)			$(6,117)
Balance, June 30, 2016	$ 1,818	$ 73,737	$411,423	$ (3,493)	$(70,261)	$413,224
Balance, April 1, 2017	$ 1,820	$ 74,701	$431,195	$ (10,793)	$(70,115)	$426,808
Net income	—	—	8,352	—	—	8,352
Other comprehensive income	—	—	—	5,229	—	5,229
Omnibus Equity Incentive Plan	1	176	—	—	—	177
Cash dividends, $.49 per share			$(6,112)			$(6,112)
Balance, June 30, 2017	$ 1,821	$ 74,877	$433,435	$ (5,564)	$(70,115)	$434,454

See accompanying notes.

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FIRST FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
Six Months Ended
June 30, 2017, and 2016
(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, 2016	$ 1,817	$ 73,396	$395,633	$ (9,401)	$(51,129)	$410,316
Net income	—	—	21,907	—	—	21,907
Other comprehensive income	—	—	—	5,908	—	5,908
Omnibus Equity Incentive Plan	1	341	—	—	—	342
Treasury shares purchased (567,780 shares)	—	—	—	—	(19,132)	(19,132)
Cash dividends, $.49 per share	—	—	(6,117)	—	—	(6,117)
Balance, June 30, 2016	$ 1,818	$ 73,737	$411,423	$ (3,493)	$(70,261)	$413,224
Balance, January 1, 2017	$ 1,820	$ 74,525	$421,826	$ (14,164)	$(69,612)	$414,395
Net income	—	—	17,721	—	—	17,721
Other comprehensive income	—	—	—	8,600	—	8,600
Omnibus Equity Incentive Plan	1	352	—	—	—	353
Treasury shares purchased (9,524 shares)	—	—	—	—	(503)	(503)
Cash dividends, $.49 per share	—	—	(6,112)	—	—	(6,112)
Balance, June 30, 2017	$ 1,821	$ 74,877	$433,435	$ (5,564)	$(70,115)	$434,454

See accompanying notes.

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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, 2017	Six Months Ended June 30, 2016
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	$17,721	$21,907
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization (accretion) of premiums and discounts on investments	1,812	1,746
Provision for loan losses	2,636	1,270
Securities (gains) losses	(17)	(13)
(Gain) loss on sale of other real estate	36	91
Gain on sale of certain assets and liabilities of insurance brokerage operation	—	(13,021)
Restricted stock compensation	353	342
Depreciation and amortization	2,274	2,514
Other, net	(7,796)	(2,926)
NET CASH FROM OPERATING ACTIVITIES	17,019	11,910
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of securities available-for-sale	783	—
Calls, maturities and principal reductions on securities available-for-sale	70,087	71,998
Purchases of securities available-for-sale	(57,468)	(50,743)
Loans made to customers, net of repayment	(20,025)	(40,671)
Purchase of restricted stock	(10)	(10)
Proceeds from sale of certain assets and liabilities of insurance brokerage operation	—	17,094
Proceeds from sales of other real estate owned	633	571
Net change in federal funds sold	6,952	4,315
Additions to premises and equipment	(1,078)	(996)
NET CASH FROM INVESTING ACTIVITIES	(126)	1,558
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net change in deposits	(806)	(48,067)
Net change in short-term borrowings	(29,109)	28,416
Maturities of other borrowings	(50,000)	(6,050)
Proceeds from other borrowings	50,000	4,350
Purchase of treasury stock	(503)	(19,132)
Dividends paid	(6,108)	(6,242)
NET CASH FROM FINANCING ACTIVITIES	(36,526)	(46,725)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(19,633)	(33,257)
CASH AND DUE FROM BANKS, BEGINNING OF PERIOD	75,012	88,695
CASH AND DUE FROM BANKS, END OF PERIOD	$55,379	$55,438

See accompanying notes.

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FIRST FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The accompanying June 30, 2017 and 2016 consolidated financial statements are unaudited. The December 31, 2016 consolidated financial statements are as reported in the First Financial Corporation (the "Corporation") 2016 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, 2016.

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. At the six months ended 2017 and 2016, 16,562 and 20,943 shares were awarded, respectively. These shares had a grant date value of $773 thousand and $677 thousand for 2017 and 2016, 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 June 30.

Allowance for Loan Losses:	June 30, 2017				
(Dollar amounts in thousands)	Commercial	Residential	Consumer	Unallocated	Total
Beginning balance	$9,377	$ 1,496	$ 6,334	$ 2,188	$19,395
Provision for loan losses	917	(231)	817	(463)	1,040
Loans charged -off	(360)	(203)	(1,527)	—	(2,090)
Recoveries	289	452	594	—	1,335
Ending Balance	$10,223	$ 1,514	$ 6,218	$ 1,725	$19,680

Allowance for Loan Losses:	June 30, 2016				
(Dollar amounts in thousands)	Commercial	Residential	Consumer	Unallocated	Total
Beginning balance	$11,168	$ 1,769	$ 5,106	$ 1,883	$19,926
Provision for loan losses	(816)	(22)	749	524	435
Loans charged -off	(555)	(232)	(1,055)	—	(1,842)
Recoveries	447	80	458	—	985
Ending Balance	$10,244	$ 1,595	$ 5,258	$ 2,407	$19,504

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

Allowance for Loan Losses:	June 30, 2017				
Beginning balance	$9,731	$1,553	$5,767	$1,722	$18,773
Provision for loan losses	403	(180)	2,410	3	2,636
Loans charged -off	(778)	(464)	(3,122)	—	(4,364)
Recoveries	867	605	1,163	—	2,635
Ending Balance	$10,223	$1,514	$6,218	$1,725	$19,680
Allowance for Loan Losses:	June 30, 2016				
Beginning balance	$11,482	$1,834	$4,945	$1,685	$19,946
Provision for loan losses	(1,091)	103	1,536	722	1,270
Loans charged -off	(822)	(471)	(2,189)	—	(3,482)
Recoveries	675	129	966	—	1,770
Ending Balance	$10,244	$1,595	$5,258	$2,407	$19,504

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 June 30, 2017 and December 31, 2016.

Allowance for Loan Losses	June 30, 2017				
(Dollar amounts in thousands)	Commercial	Residential	Consumer	Unallocated	Total
Individually evaluated for impairment	$359	$ 48	$ —	$ —	$407
Collectively evaluated for impairment	9,864	1,466	6,218	1,725	19,273
Acquired with deteriorated credit quality	—	—	—	—	—
Ending Balance	$10,223	$ 1,514	$ 6,218	$ 1,725	$19,680

Loans:	June 30, 2017			
(Dollar amounts in thousands)	Commercial	Residential	Consumer	Total
Individually evaluated for impairment	$6,865	$506	$—	$7,371
Collectively evaluated for impairment	1,104,804	430,487	317,753	1,853,044
Acquired with deteriorated credit quality	1,933	—	—	1,933
Ending Balance	$1,113,602	$430,993	$317,753	$1,862,348

Allowance for Loan Losses:	December 31, 2016				
(Dollar amounts in thousands)	Commercial	Residential	Consumer	Unallocated	Total
Individually evaluated for impairment	242	89	—	—	331
Collectively evaluated for impairment	9,489	1,464	5,767	1,722	18,442
Acquired with deteriorated credit quality	—	—	—	—	—
Ending Balance	$9,731	$ 1,553	$ 5,767	$ 1,722	$18,773

Loans	December 31, 2016			
(Dollar amounts in thousands)	Commercial	Residential	Consumer	Total
Individually evaluated for impairment	8,051	549	—	8,600
Collectively evaluated for impairment	1,101,269	423,099	307,226	1,831,594
Acquired with deteriorated credit quality	3,415	1,431	—	4,846
Ending Balance	$1,112,735	$425,079	$307,226	$1,845,040

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In the second quarter of 2017, the Corporation revised its historical loss period from four years to seven years as the Corporation believes the longer period is more appropriate as net charge-offs have been lower in recent years. The impact of this change was not material to the overall allowance for loan losses balance, however the unallocated portion was reduced by the change.

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

	June 30, 2017					
(Dollar amounts in thousands)	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
With no related allowance recorded:						
Commercial						
Commercial & Industrial	$ 968	$ 968	$—	$ 1,079	$ —	$ —
Farmland	930	930	—	585	—	—
Non Farm, Non Residential	2,773	2,773	—	2,927	—	—
Agriculture	—	—	—	286	—	—
All Other Commercial	1,311	1,311	—	1,339	—	—
Residential						
First Liens	23	23	—	24	—	—
Home Equity	—	—	—	—	—	—
Junior Liens	—	—	—	—	—	—
Multifamily	—	—	—	—	—	—
All Other Residential	—	—	—	—	—	—
Consumer						
Motor Vehicle	—	—	—	—	—	—
All Other Consumer	—	—	—	—	—	—
With an allowance recorded:						
Commercial						
Commercial & Industrial	513	513	154	525	—	—
Farmland	—	—	—	—	—	—
Non Farm, Non Residential	—	—	—	219	—	—
Agriculture	571	370	205	123	—	—
All Other Commercial	—	—	—	—	—	—
Residential						
First Liens	483	483	48	503	—	—
Home Equity	—	—	—	—	—	—
Junior Liens	—	—	—	—	—	—
Multifamily	—	—	—	—	—	—
All Other Residential	—	—	—	—	—	—
Consumer						
Motor Vehicle	—	—	—	—	—	—
All Other Consumer	—	—	—	—	—	—
TOTAL	$ 7,572	$ 7,371	$407	$ 7,610	$ —	$ —

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	December 31, 2016					
(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	$ 1,181	$ 1,181	$—	$ 981	$ —	$ —
Farmland	826	826	—	770	—	—
Non Farm, Non Residential	3,368	2,996	—	3,096	—	—
Agriculture	622	487	—	351	—	—
All Other Commercial	1,367	1,367	—	1,477	—	—
Residential						
First Liens	25	25	—	27	—	—
Home Equity	—	—	—	—	—	—
Junior Liens	—	—	—	—	—	—
Multifamily	—	—	—	—	—	—
All Other Residential	—	—	—	—	—	—
Consumer						
Motor Vehicle	—	—	—	—	—	—
All Other Consumer	—	—	—	—	—	—
With an allowance recorded:						
Commercial						
Commercial & Industrial	537	537	36	819	—	—
Farmland	—	—	—	—	—	—
Non Farm, Non Residential	657	657	206	1,016		—
Agriculture	—	—	—	114	—	—
All Other Commercial	—	—	—	45	—	—
Residential						
First Liens	524	524	89	647	—	—
Home Equity	—	—	—	—	—	—
Junior Liens	—	—	—	—	—	—
Multifamily	—	—	—	—	—	—
All Other Residential	—	—	—	—	—	—
Consumer						
Motor Vehicle	—	—	—	—	—	—
All Other Consumer	—	—	—	—	—	—
TOTAL	$ 9,107	$ 8,600	$331	$ 9,343	$ —	$ —

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	Three Months Ended June 30, 2017			Six Months Ended June 30, 2017		
(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 & Industrial	$1,029	$ —	$ —	$1,079	$ —	$ —
Farmland	465	—	—	585	—	—
Non Farm, Non Residential	2,893	—	—	2,927	—	—
Agriculture	185	—	—	286	—	—
All Other Commercial	1,325	—	—	1,339	—	—
Residential						
First Liens	24	—	—	24	—	—
Home Equity	—	—	—	—	—	—
Junior Liens	—	—	—	—	—	—
Multifamily	—	—	—	—	—	—
All Other Residential	—	—	—	—	—	—
Consumer						
Motor Vehicle	—	—	—	—	—	—
All Other Consumer	—	—	—	—	—	—
With an allowance recorded:						
Commercial						
Commercial & Industrial	519	—	—	525	—	—
Farmland	—	—	—	—	—	—
Non Farm, Non Residential	—	—	—	219	—	—
Agriculture	185	—	—	123	—	—
All Other Commercial	—	—	—	—	—	—
Residential						
First Liens	493	—	—	503	—	—
Home Equity	—	—	—	—	—	—
Junior Liens	—	—	—	—	—	—
Multifamily	—	—	—	—	—	—
All Other Residential	—	—	—	—	—	—
Consumer						
Motor Vehicle	—	—	—	—	—	—
All Other Consumer	—	—	—	—	—	—
TOTAL	$7,118	$ —	$ —	$7,610	$ —	$ —

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(Dollar amounts in thousands)	Three Months Ended June 30, 2016 Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Income Recognized	Six Months Ended June 30, 2016 Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Income Recognized
With no related allowance recorded:						
Commercial						
Commercial & Industrial	$650	$ —	$ —	$841	$ —	$ —
Farmland	733	—	—	488	—	—
Non Farm, Non Residential	3,119	—	—	3,147	—	—
Agriculture	318	—	—	212	—	—
All Other Commercial	1,431	—	—	1,540	—	—
Residential						
First Liens	28	—	—	28	—	—
Home Equity	—	—	—	—	—	—
Junior Liens	—	—	—	—	—	—
Multifamily	—	—	—	—	—	—
All Other Residential	—	—	—	—	—	—
Consumer						
Motor Vehicle	—	—	—	—	—	—
All Other Consumer	—	—	—	—	—	—
With an allowance recorded:						
Commercial						
Commercial & Industrial	797	—	—	864	—	—
Farmland	—	—	—	—	—	—
Non Farm, Non Residential	1,153	—	—	1,240	—	—
Agriculture	—	—	—	—	—	—
All Other Commercial	—	—	—	75	—	—
Residential						
First Liens	646	—	—	722	—	—
Home Equity	—	—	—	—	—	—
Junior Liens	—	—	—	—	—	—
Multifamily	—	—	—	—	—	—
All Other Residential	—	—	—	—	—	—
Consumer						
Motor Vehicle	—	—	—	—	—	—
All Other Consumer	—	—	—	—	—	—
TOTAL	$8,875	$ —	$ —	$9,157	$ —	$ —

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

	June 30, 2017			
(Dollar amounts in thousands)	Loans Past Due Over 90 Day Still Accruing	Troubled Debt Accruing	Nonaccrual	Nonaccrual Excluding TDR
Commercial				
Commercial & Industrial	$—	$3	$ 327	$ 1,928
Farmland	20	—	—	1,032
Non Farm, Non Residential	—	2	2,730	371
Agriculture	64	—	—	578
All Other Commercial	—	—	—	1,330
Residential				
First Liens	748	3,464	806	4,573
Home Equity	14	—	—	272
Junior Liens	28	—	—	160
Multifamily	—	—	—	—
All Other Residential	13	—	—	86
Consumer				
Motor Vehicle	298	16	—	233
All Other Consumer	—	166	540	692
TOTAL	$1,185	$3,651	$ 4,403	$ 11,255

Subsequent to June 30, 2017, the Corporation place a $2.8 million loan on nonaccrual that is not included in the table above.

	December 31, 2016			
(Dollar amounts in thousands)	Loans Past Due Over 90 Day Still Accruing	Troubled Debt Accruing	Nonaccrual	Nonaccrual Excluding TDR
Commercial				
Commercial & Industrial	$45	$3	$ 383	$ 2,405
Farmland	—	—	—	978
Non Farm, Non Residential	—	60	2,941	1,027
Agriculture	—	—	—	744
All Other Commercial	—	—	—	1,380
Residential				
First Liens	276	3,525	995	5,496
Home Equity	—	—	—	285
Junior Liens	55	—	—	202
Multifamily	—	—	—	—
All Other Residential	—	—	—	94

Consumer				
Motor Vehicle	293	60	—	140
All Other Consumer	—	150	517	741
TOTAL	$669	$3,798	$ 4,836	$ 13,492

There were $121 thousand of loans covered by loss share agreements with the FDIC included in loans past due over 90 days still on accrual at June 30, 2017 and there were $80 thousand at December 31, 2016. There were $66 thousand of covered loans

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included in non-accrual loans at June 30, 2017 and there were $112 thousand at December 31, 2016. There were no covered loans at June 30, 2017 or December 31, 2016 that were deemed impaired.

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

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

	June 30, 2017					
(Dollar amounts in thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 days Past Due	Total Past Due	Current	Total
Commercial						
Commercial & Industrial	$605	$77	$938	$1,620	$461,790	$463,410
Farmland	678	2,309	950	3,937	105,852	109,789
Non Farm, Non Residential	152	—	—	152	203,835	203,987
Agriculture	287	—	434	721	147,025	147,746
All Other Commercial	1	—	19	20	188,650	188,670
Residential						
First Liens	725	910	1,542	3,177	257,853	261,030
Home Equity	93	46	25	164	35,265	35,429
Junior Liens	235	145	100	480	37,730	38,210
Multifamily	—	—	—	—	83,053	83,053
All Other Residential	—	—	13	13	13,258	13,271
Consumer						
Motor Vehicle	2,639	525	311	3,475	289,787	293,262
All Other Consumer	83	7	1	91	24,400	24,491
TOTAL	$5,498	$4,019	$4,333	$13,850	$1,848,498	$1,862,348

	December 31, 2016					
(Dollar amounts in thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 days Past Due	Total Past Due	Current	Total
Commercial						
Commercial & Industrial	$370	$114	$1,199	$1,683	$474,406	$476,089
Farmland	235	22	46	303	110,897	111,200
Non Farm, Non Residential	153	—	215	368	195,120	195,488
Agriculture	246	—	467	713	151,059	151,772
All Other Commercial	15	—	—	15	178,171	178,186
Residential						
First Liens	3,862	954	1,516	6,332	264,446	270,778
Home Equity	186	64	27	277	35,782	36,059
Junior Liens	271	—	224	495	36,912	37,407
Multifamily	—	—	—	—	67,799	67,799
All Other Residential	42	12	—	54	12,982	13,036
Consumer						

Motor Vehicle	4,048	732	313	5,093	277,604	282,697
All Other Consumer	143	22	3	168	24,361	24,529
TOTAL	$9,571	$1,920	$4,010	$15,501	$1,829,539	$1,845,040

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During the three and six months ended June 30, 2017 and 2016, the terms of certain loans were modified as troubled debt restructurings (TDRs). The following tables present the activity for TDR's.

	2017			
(Dollar amounts in thousands)	Commercial	Residential	Consumer	Total
April 1,	$ 3,302	$4,068	$ 788	$8,158
Added	—	227	41	268
Charged Off	—	(7)	(48)	(55)
Payments	(241)	(90)	(56)	(387)
June 30,	$ 3,061	$4,198	$ 725	$7,984

	2017			
(Dollar amounts in thousands)	Commercial	Residential	Consumer	Total
January 1,	$ 3,386	$4,447	$ 732	$8,565
Added	—	227	209	436
Charged Off	—	(40)	(71)	(111)
Payments	(325)	(436)	(145)	(906)
June 30,	$ 3,061	$4,198	$ 725	$7,984

	2016			
(Dollar amounts in thousands)	Commercial	Residential	Consumer	Total
April 1,	3,529	5,285	695	9,509
Added	—	43	62	105
Charged Off	—	(125)	(6)	(131)
Payments	(76)	(170)	(82)	(328)
June 30,	3,453	5,033	669	9,155

	2016			
(Dollar amounts in thousands)	Commercial	Residential	Consumer	Total
January 1,	3,584	5,593	683	9,860
Added	—	123	150	273
Charged Off	—	(181)	(26)	(207)
Payments	(131)	(502)	(138)	(771)
June 30,	3,453	5,033	669	9,155

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 2017 or 2016 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. Troubled debt restructurings during the three and six months ended June 30, 2017 and 2016 did not result in any material charge-offs or additional provision expense.

The Corporation has no allocations as of June 30, 2017 and has allocated $7 thousand of specific reserves to customers whose loan terms have been modified in troubled debt restructurings at June 30, 2016. The Corporation has not committed to lend additional amounts as of June 30, 2017 and 2016 to customers with outstanding loans that are classified as troubled debt restructurings. None of the charge-offs during the three and six months ended June 30, 2017 and 2016 were of restructurings that had occurred in the previous 12 months.

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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 June 30, 2017 and December 31, 2016, and based on the most recent analysis performed, the risk category of loans by class of loans are as follows:

	June 30, 2017					
(Dollar amounts in thousands)	Pass	Special Mention	Substandard	Doubtful	Not Rated	Total
Commercial						
Commercial & Industrial	$423,394	$9,541	$ 21,668	$ 339	$7,123	$462,065
Farmland	89,607	9,108	9,511	—	11	108,237
Non Farm, Non Residential	185,767	2,924	14,858	—	—	203,549
Agriculture	117,685	12,637	15,358	—	384	146,064
All Other Commercial	177,635	372	7,869	—	1,867	187,743
Residential						
First Liens	44,650	1,613	3,909	13	210,014	260,199
Home Equity	375	—	89	—	34,902	35,366
Junior Liens	1,750	81	328	101	35,869	38,129
Multifamily	82,793	—	—	—	101	82,894
All Other Residential	—	—	31	—	13,208	13,239
Consumer						
Motor Vehicle	—	—	435	—	291,716	292,151
All Other Consumer	—	—	34	—	24,357	24,391

TOTAL	$1,123,656	$36,276	$ 74,090	$ 453	$619,552	$1,854,027

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	December 31, 2016					
(Dollar amounts in thousands)	Pass	Special Mention	Substandard	Doubtful	Not Rated	Total
Commercial						
Commercial & Industrial	$427,262	$16,286	$ 25,177	$ 449	$5,730	$474,904
Farmland	95,115	8,300	5,238	—	532	109,185
Non Farm, Non Residential	172,739	5,745	16,601	—	—	195,085
Agriculture	121,983	13,885	12,301	—	1,366	149,535
All Other Commercial	163,492	596	10,058	76	3,251	177,473
Residential						
First Liens	43,674	1,541	4,466	18	220,249	269,948
Home Equity	363	—	86	—	35,554	36,003
Junior Liens	1,826	85	401	26	34,977	37,315
Multifamily	66,133	1,430	15	—	65	67,643
All Other Residential	—	—	—	—	13,002	13,002
Consumer						
Motor Vehicle	—	—	331	—	281,134	281,465
All Other Consumer	—	—	25	—	24,391	24,416
TOTAL	$1,092,587	$47,868	$ 74,699	$ 569	$620,251	$1,835,974

3. Securities

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

	June 30, 2017			
(Dollar amounts in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Government agencies	$14,898	$ 50	$ (141)	$14,807
Mortgage Backed Securities - residential	239,368	4,011	(819)	242,560
Mortgage Backed Securities - commercial	2	—	—	2
Collateralized mortgage obligations	353,334	1,811	(3,596)	351,549
State and municipal obligations	223,797	7,023	(444)	230,376
Collateralized debt obligations	8,953	3,330	—	12,283
TOTAL	$840,352	$ 16,225	$ (5,000)	$851,577

	December 31, 2016			
(Dollar amounts in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Government agencies	$13,594	$ 32	$ (377)	$13,249
Mortgage Backed Securities-residential	261,878	3,200	(4,073)	261,005
Mortgage Backed Securities-commercial	4	—	—	4
Collateralized mortgage obligations	353,499	1,021	(6,344)	348,176
State and municipal obligations	217,365	3,954	(2,396)	218,923
Collateralized debt obligations	9,181	4,411	(1,224)	12,368
TOTAL	$855,521	$ 12,618	$ (14,414)	$853,725

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Contractual maturities of debt securities at June 30, 2017 were as follows. Securities not due at a single maturity or with no maturity date, primarily mortgage-backed and equity securities are shown separately.

	Available-for-Sale	
(Dollar amounts in thousands)	Amortized Cost	Fair Value
Due in one year or less	$6,173	$6,222
Due after one but within five years	46,878	48,312
Due after five but within ten years	83,435	86,898
Due after ten years	111,162	116,034
	247,648	257,466
Mortgage-backed securities and collateralized mortgage obligations	592,704	594,111
TOTAL	$840,352	$851,577

There were $15 thousand and $17 thousand in gross gains and no losses from investment sales/calls realized by the Corporation for the three and six months ended June 30, 2017. For the three and six months ended June 30, 2016 there were $10 thousand and $13 thousand in gross gains and no 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 June 30, 2017 and December 31, 2016.

	June 30, 2017					
	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
U.S. Government agencies	$5,777	$(141)	$—	$—	$5,777	$(141)
Mortgage Backed Securities - Residential	$70,455	$(819)	$94	$—	$70,549	$(819)
Mortgage Backed Securities - Commercial	1	—	—	—	1	—
Collateralized mortgage obligations	104,720	(1,489)	73,343	(2,107)	178,063	(3,596)
State and municipal obligations	23,345	(444)	—	—	23,345	(444)
Total temporarily impaired securities	$204,298	$(2,893)	$73,437	$(2,107)	$277,735	$(5,000)

	December 31, 2016					
	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
US Government entity mortgage-backed securities	$12,224	$(377)	$—	$—	$12,224	$(377)
Mortgage Backed Securities - Residential	$202,248	$(4,072)	$152	$(1)	$202,400	$(4,073)
Collateralized mortgage obligations	169,717	(3,086)	79,999	(3,258)	249,716	(6,344)
State and municipal obligations	72,852	(2,396)	—	—	72,852	(2,396)
Collateralized Debt Obligations	7,561	(1,224)	—	—	7,561	(1,224)
Total temporarily impaired securities	$464,602	$(11,155)	$80,151	$(3,259)	$544,753	$(14,414)

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.

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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 $5.0 million as of June 30, 2017 and $14.4 million as of December 31, 2016. 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.

There are three collateralized debt obligations securities with previously recorded OTTI but there was no additional OTTI recorded in 2017 or 2016. During the quarter ended March 31, 2017, one of the obligations was partially called, resulting in the elimination of the OTTI associated with that obligation. A cash recovery of $3.1 million was received and recognized in non-interest income for the period as the book value of the security was previously written down to zero.

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 61.8 to 65.41 while Moody Investor Service pricing ranges from 18.07 to 48.11, 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 six month periods ended June 30, 2017 and 2016:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollar amounts in thousands)	2017	2016	2017	2016
Beginning balance	$7,132	$13,995	$13,974	$13,995
Increases to the amount related to the credit				
Loss for which other-than-temporary was previously recognized	—	—	—	—
Reductions for increases in cash flows collected	—	(21)		(21)
Reductions for securities called during the period	—	—	(6,842)	—
Ending balance	$7,132	$13,974	$7,132	$13,974

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.

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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).

	June 30, 2017 Fair Value Measurements Using Significant Unobservable Inputs (Level 3)			
(Dollar amounts in thousands)	Level 1	Level 2	Level 3	Total
U.S. Government agencies	$—	$14,807	$—	$14,807
Mortgage Backed Securities-residential	—	242,560	—	242,560
Mortgage Backed Securities-commercial	—	2	—	2
Collateralized mortgage obligations	—	351,549	—	351,549
State and municipal	—	226,696	3,680	230,376
Collateralized debt obligations	—	—	12,283	12,283
TOTAL	$—	$835,614	$15,963	$851,577
Derivative Assets		526		
Derivative Liabilities		(526)		

	December 31, 2016 Fair Value Measurements Using Significant Unobservable Inputs (Level 3)			
(Dollar amounts in thousands)	Level 1	Level 2	Level 3	Total
U.S. Government agencies	$—	$13,249	$—	$13,249
Mortgage Backed Securities-residential	—	261,005	—	261,005
Mortgage Backed Securities-commercial	—	4	—	4
Collateralized mortgage obligations	—	348,176	—	348,176
State and municipal	—	214,713	4,210	218,923
Collateralized debt obligations	—	—	12,368	12,368
TOTAL	$—	$837,147	$16,578	$853,725
Derivative Assets				