

FIRST FINANCIAL CORP /IN/
Form 10-Q
August 09, 2012
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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, 2012

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

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(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 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 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 <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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

As of August 5, 2012, the registrant had outstanding 13,237,523 shares of common stock, without par value.

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Item 1. Financial Statements

FIRST FINANCIAL CORPORATION

CONSOLIDATED BALANCE SHEETS

(Dollar amounts in thousands, except per share data)

	June 30, 2012	December 31, 2011
	(Unaudited)	
ASSETS		
Cash and due from banks	\$ 84,669	\$ 134,280
Federal funds sold and short-term investments	27,472	11,725
Securities available-for-sale	658,751	666,287
Loans:		
Commercial	1,101,791	1,099,324
Residential	500,110	505,600
Consumer	276,758	289,717
	1,878,659	1,894,641
Less:		
Unearned Income	(936)	(962)
Allowance for loan losses	(20,092)	(19,241)
	1,857,631	1,874,438
Restricted Stock	21,296	22,282
Accrued interest receivable	11,829	12,947
Premises and equipment, net	44,945	40,105
Bank-owned life insurance	74,187	82,646
Goodwill	37,612	37,612
Other intangible assets	4,539	5,142
Other real estate owned	7,163	4,964
FDIC Indemnification asset	1,608	2,384
Other assets	60,036	59,964
TOTAL ASSETS	\$ 2,891,738	\$ 2,954,776
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing	\$ 496,303	\$ 435,236
Interest-bearing:		
Certificates of deposit of \$100 or more	217,523	242,001
Other interest-bearing deposits	1,539,395	1,597,262
	2,253,221	2,274,499
Short-term borrowings	47,091	100,022
Other borrowings	146,111	146,427
Other liabilities	87,028	86,867
TOTAL LIABILITIES	2,533,451	2,607,815
Shareholders' equity		

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Common stock, \$.125 stated value per share;			
Authorized shares-40,000,000 Issued shares-14,490,609 in 2012 and 14,450,966 in 2011			
Outstanding shares-13,237,523 in 2012 and 13,197,880 in 2011	1,807		1,806
Additional paid-in capital	69,571		69,328
Retained earnings	328,056		318,130
Accumulated other comprehensive income (loss)	(9,338)		(10,494)
Treasury shares at cost-1,253,086 in 2012 and 2011	(31,809)		(31,809)
TOTAL SHAREHOLDERS EQUITY	358,287		346,961
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	\$ 2,891,738	\$	2,954,776

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,	
	2012 (unaudited)	2011 (unaudited)	2012 (unaudited)	2011 (unaudited)
INTEREST INCOME:				
Loans, including related fees	\$ 25,226	\$ 23,004	\$ 50,424	\$ 45,960
Securities:				
Taxable	3,508	4,321	7,031	8,516
Tax-exempt	1,810	1,699	3,615	3,363
Other	590	471	1,213	947
TOTAL INTEREST INCOME	31,134	29,495	62,283	58,786
INTEREST EXPENSE:				
Deposits	2,169	3,082	4,833	6,365
Short-term borrowings	37	41	83	95
Other borrowings	1,266	1,213	2,540	2,412
TOTAL INTEREST EXPENSE	3,472	4,336	7,456	8,872
NET INTEREST INCOME	27,662	25,159	54,827	49,914
Provision for loan losses	1,789	1,352	4,745	2,534
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	25,873	23,807	50,082	47,380
NON-INTEREST INCOME:				
Trust and financial services	1,439	1,191	2,919	2,528
Service charges and fees on deposit accounts	2,402	2,354	4,606	4,503
Other service charges and fees	2,276	2,092	4,731	4,081
Securities gains/(losses), net	664	4	660	7
Total impairment losses	(11)	(97)	(11)	(97)
Loss recognized in other comprehensive loss				
Net impairment loss recognized in earnings	(11)	(97)	(11)	(97)
Insurance commissions	1,799	1,673	3,690	3,393
Gain on sales of mortgage loans	792	401	1,717	738
Other	396	268	956	1,035
TOTAL NON-INTEREST INCOME	9,757	7,886	19,268	16,188
NON-INTEREST EXPENSE:				
Salaries and employee benefits	13,891	11,517	28,310	22,955
Occupancy expense	1,488	1,203	2,905	2,453
Equipment expense	1,399	1,095	2,681	2,229
FDIC Expense	527	536	955	1,279
Other	5,797	5,061	11,671	9,446
TOTAL NON-INTEREST EXPENSE	23,102	19,412	46,522	38,362
INCOME BEFORE INCOME TAXES	12,528	12,281	22,828	25,206
Provision for income taxes	3,823	3,864	6,680	7,986
NET INCOME	8,705	8,417	16,148	17,220
OTHER COMPREHENSIVE INCOME				
Change in unrealized gains/losses on securities, net of reclassifications	570	9,158	640	15,507
Tax effect	(228)	(3,663)	(256)	(6,203)
	342	5,495	384	9,304
	670	503	1,287	1,008

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Change in funded status of post retirement

benefits

Tax effect	(268)	(201)	(515)	(403)
	402	302	772	605
TOTAL OTHER COMPREHENSIVE INCOME	744	5,797	1,156	9,909
COMPREHENSIVE INCOME	\$ 9,449	\$ 14,214	\$ 17,304	\$ 27,129
PER SHARE DATA				
Basic and Diluted	\$ 0.66	\$ 0.64	\$ 1.22	\$ 1.31
Dividends per Share	\$ 0.47	\$ 0.47	\$ 0.47	\$ 0.47
Weighted average number of shares outstanding (in thousands)	13,238	13,152	13,230	13,152

See accompanying notes.

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FIRST FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

Three Months Ended

June 30, 2012, and 2011

(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, 2012	\$ 1,807	\$ 69,448	\$ 325,573	\$ (10,082)	\$ (31,809)	\$ 354,937
Net income			8,705			8,705
Change in net unrealized gains/(losses) on securities available for-sale				342		342
Change in funded status of retirement plans				402		402
Omnibus Equity Incentive Plan		123				123
Cash Dividends, \$.47 per share			(6,222)			(6,222)
Balance, June 30, 2012	\$ 1,807	\$ 69,571	\$ 328,056	\$ (9,338)	\$ (31,809)	\$ 358,287
Balance, April 1, 2011	\$ 1,806	\$ 68,944	\$ 302,122	\$ (5,257)	\$ (32,983)	\$ 334,632
Net income			8,417			8,417
Change in net unrealized gains/(losses) on securities available for-sale				5,495		5,495
Change in funded status of retirement plans				302		302
Cash Dividends, \$.47 per share			(6,181)			(6,181)
Balance, June 30, 2011	\$ 1,806	\$ 68,944	\$ 304,358	\$ 540	\$ (32,983)	\$ 342,665

See accompanying notes.

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FIRST FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

Six Months Ended

June 30, 2012, and 2011

(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, 2012	\$ 1,806	\$ 69,328	\$ 318,130	\$ (10,494)	\$ (31,809)	\$ 346,961
Net income			16,148			16,148
Change in net unrealized gains/(losses) on securities available for-sale				384		384
Change in funded status of retirement plans				772		772
Omnibus Equity Incentive Plan	1	243				244
Cash Dividends, \$.47 per share			(6,222)			(6,222)
Balance, June 30, 2012	\$ 1,807	\$ 69,571	\$ 328,056	\$ (9,338)	\$ (31,809)	\$ 358,287
Balance, January 1, 2011	\$ 1,806	\$ 68,944	\$ 293,319	\$ (9,369)	\$ (32,983)	\$ 321,717
Net income			17,220			17,220
Change in net unrealized gains/(losses) on securities available for-sale				9,304		9,304
Change in funded status of retirement plans				605		605
Cash Dividends, \$.47 per share			(6,181)			(6,181)
Balance, June 30, 2011	\$ 1,806	\$ 68,944	\$ 304,358	\$ 540	\$ (32,983)	\$ 342,665

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, (Unaudited)	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	\$ 16,148	\$ 17,220
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization (accretion) of premiums and discounts on investments	1,565	(111)
Provision for loan losses	4,745	2,534
Securities (gains) losses	(660)	(7)
Securities impairment loss	11	97
(Gain) loss on sale of other real estate	1	178
Restricted stock compensation	244	
Depreciation and amortization	2,395	2,109
Other, net	3,829	257
NET CASH FROM OPERATING ACTIVITIES	28,278	22,277
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of securities available-for-sale	6,513	25
Redemption of restricted stock	1,172	3,343
Purchases of restricted stock	(186)	
Purchases of customer list	(114)	
Redemption of bank owned life insurance	7,319	
Calls, maturities and principal reductions on securities available-for-sale	58,483	66,853
Purchases of securities available-for-sale	(58,052)	(104,555)
Loans made to customers, net of repayment	8,288	(8,780)
Proceeds from sales of other real estate owned	2,111	2,532
Net change in federal funds sold	(15,747)	3,154
Additions to premises and equipment	(6,518)	(953)
NET CASH FROM INVESTING ACTIVITIES	3,269	(38,381)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net change in deposits	(22,024)	(9,758)
Net change in short-term borrowings	(52,931)	33,359
Dividends paid	(6,203)	(6,050)
NET CASH FROM FINANCING ACTIVITIES	(81,158)	17,551
NET CHANGE IN CASH AND CASH EQUIVALENTS	(49,611)	1,447
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	134,280	58,511
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 84,669	\$ 59,958

See accompanying notes.

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FIRST FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The accompanying June 30, 2012 and 2011 consolidated financial statements are unaudited. The December 31, 2011 consolidated financial statements are as reported in the First Financial Corporation (the Corporation) 2011 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, 2011.

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 2012, 39,643 shares were awarded. These shares had a grant date value of \$1.4 million, 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: (Dollar amounts in thousands)	June 30, 2012			Unallocated	Total
	Commercial	Residential	Consumer		
Beginning balance	\$ 11,448	\$ 2,092	\$ 3,806	\$ 967	\$ 18,313
Provision for loan losses*	1,880	582	670	67	3,199
Loans charged -off	(344)	(572)	(1,073)		(1,989)
Recoveries	206	22	341		569
Ending Balance	\$ 13,190	\$ 2,124	\$ 3,744	\$ 1,034	\$ 20,092

* Provision before decrease of \$1.41 million in 2012 for increase in FDIC indemnification asset

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Allowance for Loan Losses: (Dollar amounts in thousands)	June 30, 2011					Total
	Commercial	Residential	Consumer	Unallocated		
Beginning balance	\$ 12,536	\$ 3,251	\$ 4,054	\$ 2,301		\$ 22,142
Provision for loan losses*	1,320	607	243	(1,104)		1,066
Loans charged -off	(1,306)	(327)	(423)			(2,056)
Recoveries	336	33	104			473
Ending Balance	\$ 12,886	\$ 3,564	\$ 3,978	\$ 1,197		\$ 21,625

* Provision before increase of \$286 thousand in 2011 for decrease in FDIC indemnification asset

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: (Dollar amounts in thousands)	June 30, 2012					Total
	Commercial	Residential	Consumer	Unallocated		
Beginning balance	\$ 12,119	\$ 2,728	\$ 3,889	\$ 506		\$ 19,242
Provision for loan losses*	2,877	1,265	989	528		5,659
Loans charged -off	(2,202)	(1,908)	(1,856)			(5,966)
Recoveries	396	39	722			1,157
Ending Balance	\$ 13,190	\$ 2,124	\$ 3,744	\$ 1,034		\$ 20,092

* Provision before decrease of \$914 thousand in 2012 for increase in FDIC indemnification asset

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Allowance for Loan Losses: (Dollar amounts in thousands)	June 30, 2011				
	Commercial	Residential	Consumer	Unallocated	Total
Beginning balance	\$ 12,809	\$ 2,873	\$ 4,551	\$ 2,103	\$ 22,336
Provision for loan losses*	2,009	1,294	33	(906)	2,430
Loans charged -off	(2,367)	(690)	(1,191)		(4,248)
Recoveries	435	87	585		1,107
Ending Balance	\$ 12,886	\$ 3,564	\$ 3,978	\$ 1,197	\$ 21,625

* Provision before increase of \$104 thousand in 2011 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 June 30, 2012 and December 31, 2011.

Ending Balance Attributable to Loans: (Dollar amounts in thousands)	June 30, 2012				
	Commercial	Residential	Consumer	Unallocated	Total
Individually evaluated for impairment	\$ 4,239	\$ 190	\$ 3,744	\$ 1,034	\$ 4,429
Collectively evaluated for impairment	8,709	1,928			15,415
Acquired with deteriorated credit quality	242	6			248
Ending Balance	\$ 13,190	\$ 2,124	\$ 3,744	\$ 1,034	\$ 20,092

Loans: (Dollar amounts in thousands)	June 30, 2012				
	Commercial	Residential	Consumer	Unallocated	Total
Individually evaluated for impairment	\$ 21,682	\$ 1,213	\$ 278,066	\$ 8	\$ 22,895
Collectively evaluated for impairment	1,065,891	495,404			1,839,361
Acquired with deteriorated credit quality	19,695	5,442			25,145
Ending Balance	\$ 1,107,268	\$ 502,059	\$ 278,074	\$ 8	\$ 1,887,401

Ending Balance Attributable to Loans: (Dollar amounts in thousands)	December 31, 2011				
	Commercial	Residential	Consumer	Unallocated	Total
Individually evaluated for impairment	\$ 3,071	\$ 190	\$ 3,889	\$ 505	\$ 3,261
Collectively evaluated for impairment	8,264	2,183			14,841
Acquired with deteriorated credit quality	784	355			1,139
Ending Balance	\$ 12,119	\$ 2,728	\$ 3,889	\$ 505	\$ 19,241

Loans (Dollar amounts in thousands)	December 31, 2011				
	Commercial	Residential	Consumer	Unallocated	Total
Individually evaluated for impairment	\$ 25,393	\$ 2,213	\$ 291,190	\$ 11	\$ 27,606
Collectively evaluated for impairment	1,036,963	492,139			1,820,292
Acquired with deteriorated credit quality	43,389	12,986			56,386
Ending Balance	\$ 1,105,745	\$ 507,338	\$ 291,201	\$ 11	\$ 1,904,284

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

(Dollar amounts in thousands)	June 30, 2012		
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
With no related allowance recorded:			
Commercial			
Commercial & Industrial	\$ 2,567	\$ 2,567	\$
Farmland			
Non Farm, Non Residential	1,975	1,975	
Agriculture			
All Other Commercial			
Residential			
First Liens			
Home Equity			
Junior Liens			
Multifamily			
All Other Residential			
Consumer			
Motor Vehicle			
All Other Consumer			
With an allowance recorded:			
Commercial			
Commercial & Industrial	15,493	15,464	4,040
Farmland	891	891	49
Non Farm, Non Residential	2,509	2,509	198
Agriculture			
All Other Commercial	1,311	1,311	93
Residential			
First Liens	1,213	1,213	190
Home Equity			
Junior Liens			
Multifamily			
All Other Residential			
Consumer			
Motor Vehicle			
All Other Consumer			
TOTAL	\$ 25,959	\$ 25,930	\$ 4,570

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(Dollar amounts in thousands)	December 31, 2011					
	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	\$	\$	\$	\$ 1,929	\$ 165	\$
Farmland						
Non Farm, Non Residential	4,444	4,444		3,262		
Agriculture						
All Other Commercial						
Residential						
First Liens	750	750		150		
Home Equity						
Junior Liens						
Multifamily	250	250		50		
All Other Residential						
Consumer						
Motor Vehicle						
All Other Consumer						
With an allowance recorded:						
Commercial						
Commercial & Industrial	17,890	17,866	2,664	16,746		
Farmland	891	891	49	360		
Non Farm, Non Residential	4,816	4,816	957	8,717		
Agriculture						
All Other Commercial	1,517	1,517	66	1,671		
Residential						
First Liens	1,213	1,213	190	2,014		
Home Equity						
Junior Liens	879	879	347	937		
Multifamily				510		
All Other Residential						
Consumer						
Motor Vehicle						
All Other Consumer						
TOTAL	\$ 32,650	\$ 32,626	\$ 4,273	\$ 36,346	\$ 165	\$

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(Dollar amounts in thousands)	Three Months Ended June 30, 2012			Six Months Ended June 30, 2012		
	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	\$ 1,284	\$	\$	\$ 856	\$	\$
Farmland						
Non Farm, Non Residential	1,975			2,798		
Agriculture						
All Other Commercial						
Residential						
First Liens				250		
Home Equity						
Junior Liens						
Multifamily				83		
All Other Residential						
Consumer						
Motor Vehicle						
All Other Consumer						
With an allowance recorded:						
Commercial						
Commercial & Industrial	16,669			17,068		
Farmland	891			891		
Non Farm, Non Residential	2,609			3,345		
Agriculture						
All Other Commercial	1,384			1,428		
Residential						
First Liens	1,213			1,213		
Home Equity						
Junior Liens				293		
Multifamily						
All Other Residential						
Consumer						
Motor Vehicle						
All Other Consumer						
TOTAL	\$ 26,025	\$	\$	\$ 28,225	\$	\$

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The table below presents non-performing loans.

(Dollar amounts in thousands)	June 30, 2012		
	Loans Past Due Over 90 Day Still Accruing	Restructured	Nonaccrual
Commercial			
Commercial & Industrial	\$ 881	\$ 12,267	\$ 11,476
Farmland	239		909
Non Farm, Non Residential	125		8,794
Agriculture			127
All Other Commercial			2,404
Residential			
First Liens	902	3,597	7,630
Home Equity	67		17
Junior Liens	293	3	522
Multifamily	5,641		1,987
All Other Residential			346
Consumer			
Motor Vehicle	115	629	217
All Other Consumer	6	17	1,637
TOTAL	\$ 8,269	\$ 16,513	\$ 36,066

(Dollar amounts in thousands)	December 31, 2011		
	Loans Past Due Over 90 Day Still Accruing	Restructured	Nonaccrual
Commercial			
Commercial & Industrial	\$ 317	\$ 12,590	\$ 9,673
Farmland	74		979
Non Farm, Non Residential	237		12,542
Agriculture			225
All Other Commercial			3,171
Residential			
First Liens	1,150	3,856	7,398
Home Equity	8		
Junior Liens	154	898	1,240
Multifamily			668
All Other Residential	136		171
Consumer			
Motor Vehicle	77		294
All Other Consumer	4		1,741
TOTAL	\$ 2,157	\$ 17,344	\$ 38,102

Covered loans included in loans past due over 90 days still on accrual are \$679 thousand at June 30, 2012 and \$413 thousand at December 31, 2011. Covered loans included in non-accrual loans are \$4.5 million at June 30, 2012 and \$5.6 million at December 31, 2011. Covered loans of \$3.0 million at June 30, 2012 and \$5.0 million at December 31, 2011 are deemed impaired and have allowance for loan loss allocated to them of \$142 thousand and \$1.0 million, respectively for June 30, 2012 and December 31, 2011. 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.

June 30, 2012						
(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	\$ 2,526	\$ 433	\$ 4,688	\$ 7,647	\$ 476,604	\$ 484,251
Farmland	187	2	1,130	1,319	90,379	91,698
Non Farm, Non Residential	764	1,082	3,991	5,837	321,802	327,639
Agriculture	25	55	14	94	112,126	112,220
All Other Commercial	3,317	58	651	4,026	87,434	91,460
Residential						
First Liens	1,789	1,368	4,674	7,831	349,222	357,053
Home Equity	89	14	67	170	43,055	43,225
Junior Liens	722	181	389	1,292	39,172	40,464
Multifamily	70		5,703	5,773	44,400	50,173
All Other Residential					11,144	11,144
Consumer						
Motor Vehicle	2,564	363	115	3,042	249,793	252,835
All Other Consumer	225	33	6	264	24,975	25,239
TOTAL	\$ 12,278	\$ 3,589	\$ 21,428	\$ 37,295	\$ 1,850,106	\$ 1,887,401

December 31, 2011						
(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	\$ 2,717	\$ 740	\$ 4,452	\$ 7,909	\$ 472,370	\$ 480,279
Farmland	5	57	1,034	1,096	98,158	99,254
Non Farm, Non Residential	2,945	420	7,754	11,119	310,724	321,843
Agriculture	88		97	185	114,162	114,347
All Other Commercial	120		1,588	1,708	88,313	90,021
Residential						
First Liens	11,435	2,016	5,316	18,767	340,269	359,036
Home Equity	175	62	8	245	44,939	45,184
Junior Liens	1,333	183	190	1,706	39,903	41,609
Multifamily		100	668	768	46,216	46,984
All Other Residential	128		136	264	14,261	14,525
Consumer						
Motor Vehicle	3,450	563	77	4,090	260,102	264,192
All Other Consumer	174	48	5	227	26,782	27,009
TOTAL	\$ 22,570	\$ 4,189	\$ 21,325	\$ 48,084	\$ 1,856,199	\$ 1,904,283

The Corporation has allocated \$1.9 million and \$1.6 million of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of June 30, 2012 and December 31, 2011. The Corporation has not committed to lend additional amounts as of June 30, 2012 and December 31, 2011 to customers with outstanding loans that are classified as troubled debt restructurings. There were \$162 thousand in modifications that were troubled debt restructurings in the quarter ended March 31, 2012 and \$655 thousand for the three months ended June 30, 2012, resulting in no impact to the allowance for loan losses. There were no loans that defaulted during the six months ended June 30, 2012 that had been restructured within the past 12 months.

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 \$50 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:

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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 listed as not rated are either less than \$50 thousand or are included in groups of homogeneous loans.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans. As of June 30, 2012 and December 31, 2011, and based on the most recent analysis performed, the risk category of loans by class of loans are as follows:

(Dollar amounts in thousands)	June 30, 2012						Total
	Pass	Special Mention	Substandard	Doubtful	Not Rated		
Commercial							
Commercial & Industrial	\$ 402,954	\$ 25,500	\$ 42,229	\$ 6,659	\$ 5,572	\$ 482,914	
Farmland	82,746	4,015	2,740		641	90,142	
Non Farm, Non Residential	266,370	25,740	26,416	659	7,488	326,673	
Agriculture	104,344	5,563	916		206	111,029	
All Other Commercial	78,334	2,703	6,921	60	3,015	91,033	
Residential							
First Liens	109,964	4,413	17,689	665	222,842	355,573	
Home Equity	12,967	338	1,106	26	28,710	43,147	
Junior Liens	11,232	309	563	72	28,140	40,316	
Multifamily	35,239	3,863	8,651	1,925	293	49,971	
All Other Residential	3,455		222		7,426	11,103	
Consumer							
Motor Vehicle	12,068	333	410	49	238,817	251,677	
All Other Consumer	4,877	34	268	11	19,891	25,081	
TOTAL	\$ 1,124,550	\$ 72,811	\$ 108,131	\$ 10,126	\$ 563,041	\$ 1,878,659	

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December 31, 2011

(Dollar amounts in thousands)	Pass	Special Mention	Substandard	Doubtful	Not Rated	Total
Commercial						
Commercial & Industrial	\$ 386,734	\$ 25,343	\$ 53,026	\$ 7,128	\$ 6,717	\$ 478,948
Farmland	89,213	4,250	3,015	69	619	97,166
Non Farm, Non Residential	254,761	28,684	32,704	4,271	393	320,813
Agriculture	109,869	2,100	623	79	122	112,793
All Other Commercial	77,330	6,097	5,099	67	1,011	89,604
Residential						
First Liens	113,234	5,175	19,895	1,318	218,118	357,740
Home Equity	13,613	520	671	19	30,278	45,101
Junior Liens	11,887	714	783	968	27,105	41,457
Multifamily	35,837	3,911	6,224	606	258	46,836
All Other Residential	4,658	445	53		9,310	14,466
Consumer						
Motor Vehicle	12,988	330	501	59	249,018	262,896
All Other Consumer	6,120	57	141	12	20,491	26,821
TOTAL	\$ 1,116,244	\$ 77,626	\$ 122,735	\$ 14,596	\$ 563,440	\$ 1,894,641

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, 2012

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Government agencies	\$ 1,899	\$ 85	\$	\$ 1,984
Mortgage Backed Securities - Residential	291,240	15,152		306,392
Mortgage Backed Securities - Commercial	50	1		51
Collateralized Mortgage Obligations	143,679	3,399	(34)	147,044
State and Municipal Obligations	186,180	12,486	(85)	198,581
Collateralized Debt Obligations	13,509	244	(9,374)	4,379
Equity Securities	320			320
TOTAL	\$ 636,877	\$ 31,367	\$ (9,493)	\$ 658,751

(000 s)
December 31, 2011

(Dollar amounts in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Government agencies	\$ 3,979	\$ 34	\$	\$ 4,013
Mortgage Backed Securities-residential	296,646	15,142		311,788
Mortgage Backed Securities-commercial	98	3		101
Collateralized mortgage obligations	144,850	3,097		147,947
State and municipal	183,854	11,738	(11)	195,581
Collateralized debt obligations	14,031	150	(9,410)	4,771
Equities	1,596	490		2,086

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TOTAL	\$	645,054	\$	30,654	\$	(9,421)	\$	666,287
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Contractual maturities of debt securities at June 30, 2012 were as follows. Securities not due at a single maturity or with no maturity date, primarily mortgage-backed and equity securities are shown separately.

(Dollar amounts in thousands)	June 30, 2012	
	Amortized Cost	Fair Value
Due in one year or less	\$ 7,923	\$ 8,038
Due after one but within five years	41,808	43,713
Due after five but within ten years	88,072	93,252
Due after ten years	207,464	206,985
	345,267	351,988
Mortgage-backed securities and equities	291,610	306,763
TOTAL	\$ 636,877	\$ 658,751

There were \$664 thousand in gains and \$4 thousand in losses from investment sales, and \$11 thousand in losses from OTTI realized by the Corporation for the six months ended June 30, 2012. For the three months ended June 30, 2012 the gains were \$660 thousand and losses were \$4 thousand. The \$11 thousand of OTTI was realized in the second quarter of 2012. There were \$7 thousand in gains from investment sales and \$97 thousand in losses from OTTI realized by the Corporation for the six months ended June 30, 2011.

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, 2012 and December 31, 2011.

(Dollar amounts in thousands)	June 30, 2012						Total Unrealized Losses
	Less Than 12 Months		More Than 12 Months		Fair Value		
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses			
Collateralized Mortgage Obligations	\$ 13,552	\$ (34)	\$ 13,552	\$ (34)	\$ 13,552	\$ (34)	
State and municipal obligations	7,738	(85)			7,738	(85)	
Collateralized Debt Obligations			3,208	(9,374)	3,208	(9,374)	
Total temporarily impaired securities	\$ 21,290	\$ (119)	\$ 3,208	\$ (9,374)	\$ 24,498	\$ (9,493)	

(Dollar amounts in thousands)	December 31, 2011						Total Unrealized Losses
	Less Than 12 Months		More Than 12 Months		Fair Value		
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses			
State and municipal obligations	\$ 1,110	\$ (11)	\$ 1,110	\$ (11)	\$ 1,110	\$ (11)	
Collateralized Debt Obligations			3,603	(9,410)	3,603	(9,410)	
Total temporarily impaired securities	\$ 1,110	\$ (11)	\$ 3,603	\$ (9,410)	\$ 4,713	\$ (9,421)	

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

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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 \$9.5 million as of June 30, 2012 and \$9.4 million as of December 31, 2011. A majority of these losses represent negative adjustments to market value relative to the illiquidity in the markets on the securities 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 significant portion of the total unrealized loss in investment securities relates 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 CDOs included in collateralized debt obligations were other-than-temporarily impaired, though no impairment was identified during the first or second quarter of 2012. Those three CDOs have a contractual balance of \$28.0 million at June 30, 2012 which has been reduced to \$3.7 million by \$0.7 million of interest payments received, \$14.9 million of cumulative OTTI charges recorded through earnings to date, and \$8.7 million recorded in other comprehensive income (\$5.2 million after tax effect). The severity of the OTTI recorded varies by security, based on the analysis described below, and ranges at June 30, 2012 from 28% to 87%. The OTTI recorded in other comprehensive income represents OTTI 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 become 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 \$1.0 million and a fair value of \$0.7 million 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.

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 2.3 to 65.1 while Moody Investor Service pricing ranges from 0.06 to 94.54, 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.

Equity securities relate to investments in bank stocks held at the holding company. In the second quarter the Corporation recognized other-than-temporary impairment on an equity security in the amount of \$11 thousand. Bank stock values have been negatively impacted by the current economic environment and market pessimism.

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The table below presents a rollforward of the credit losses recognized in earnings for the three and six month periods ended June 30, 2012 and 2011:

(Dollar amounts in thousands)	Three Months Ended		Six Months Ended	
	2012	2011	2012	2011
Beginning balance	\$ 15,180	\$ 15,070	\$ 15,180	\$ 15,070
Amounts related to credit loss for which an other-than-temporary impairment was not previously recognized		97		97
Increases to the amount related to the credit loss for which other-than-temporary impairment was previously recognized	11		11	
Amounts realized for securities sold during the period	(208)		(208)	
Ending balance	\$ 14,983	\$ 15,167	\$ 14,983	\$ 15,167

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 bank equities and 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 certain investments in bank equities is based on the prices of recent stock trades and is considered Level 3 because these stocks are not publicly traded. 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 measurement.

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

(Dollar amounts in thousands)	June 30, 2012			
	Level 1	Level 2	Level 3	Total
U.S. Government agencies	\$	\$ 1,984	\$	\$ 1,984
Mortgage Backed Securities-residential		306,392		306,392
Mortgage Backed Securities-commercial		51		51
Collateralized mortgage obligations		147,044		147,044
State and municipal		188,515	10,066	198,581
Collateralized debt obligations			4,379	4,379
Equities		320		320
TOTAL	\$	\$ 643,986	\$ 14,445	\$ 658,751
Derivative Assets		2,673		
Derivative Liabilities		(2,673)		

(Dollar amounts in thousands)	December 31, 2011			
	Level 1	Level 2	Level 3	Total
U.S. Government agencies	\$	\$ 4,013	\$	\$ 4,013
Mortgage Backed Securities-residential		311,788		311,788
Mortgage Backed Securities-commercial		101		101
Collateralized mortgage obligations		147,947		147,947
State and municipal		186,056	9,525	195,581
Collateralized debt obligations			4,771	4,771
Equities		375	1,711	2,086
TOTAL	\$	\$ 649,905	\$ 16,007	\$ 666,287
Derivative Assets		2,447		
Derivative Liabilities		(2,447)		

There were no transfers between Level 1 and Level 2 during 2012 and 2011.

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 six months ended June 30, 2012 and the year ended December 31, 2011.

	Three months ended June 30, 2012			
	Equities	State and municipal obligations	Collateralized debt obligations	Total
Beginning balance, April 1	\$ 1,711	\$ 9,525	\$ 4,486	\$ 15,722
Total realized/unrealized gains or losses				
Included in earnings	435		229	664
Included in other comprehensive income	(446)			(446)
Transfers & Purchases		1,186		1,186
Settlements	(1,700)	(645)	(336)	(2,681)

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Ending balance, June 30	\$	\$	10,066	\$	4,379	\$	14,445
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	Six months ended June 30, 2012			
	Equities	State and municipal obligations	Collateralized debt obligations	Total
Beginning balance, January 1	\$ 1,711	\$ 9,525	\$ 4,771	\$ 16,007
Total realized/unrealized gains or losses				
Included in earnings	435		229	664
Included in other comprehensive income	(446)		(285)	(731)
Transfers & Purchases		1,186		1,186
Settlements	(1,700)	(645)	(336)	(2,681)
Ending balance, June 31	\$	\$ 10,066	\$ 4,379	\$ 14,445

	December 31, 2011			
	Equities	State and municipal obligations	Collateralized debt obligations	Total
Beginning balance, January 1	\$ 1,518	\$	\$ 2,190	\$ 3,708
Total realized/unrealized gains or losses				
Included in earnings				
Included in other comprehensive income	193		2,581	2,774
Transfers & Purchases		9,672		9,672
Settlements		(147)		(147)
Ending balance, December 31	\$ 1,711	\$ 9,525	\$ 4,771	\$ 16,007

The following table presents quantitative information about recurring and non-recurring Level 3 fair value measurements at June 30, 2012.

	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range
State and municipal obligations	\$ 10,066	Discounted cash flow	Discount rate Probability of default	3.05%-5.50% 0%
Other real estate	\$ 7,163	Sales comparison/income approach	Discount rate for age of appraisal and market conditions	5.00%-20.00%
Impaired Loans	21,389	Sales comparison/income approach	Discount rate for age of appraisal and market conditions	0.00%-20.00%

All impaired loans disclosed in footnote 2 are valued at Level 3 and are carried at a fair value of \$21.4 million, net of a valuation allowance of \$4.6 million at June 30, 2012. At December 31, 2011 impaired loans valued at Level 3 were carried at a fair value of \$28.4 million, net of a valuation allowance of \$4.3 million. The impact to the provision for loan losses was \$1.4 and \$0.6 million for the three and six months ended June 30, 2012, and was \$3.3 million for the year ended December 31, 2011. 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 selling costs and the age of the appraisal, which are based on management's past experience in resolving these types of properties. These discounts range from 5% to 20% for costs to sell and marketability. Other real estate and

impaired loans carried at fair value are primarily comprised of smaller balance properties. One impaired loan has an estimated fair value of \$5.3 million. The collateral securing this loan is a hotel and was appraised based on income and sales comparison approaches. Given the current distressed market, it was difficult for the appraiser to identify recent and relevant comparable sales, therefore the value was based predominantly on the income method which applied a 9.5% capitalization rate to projected net operating income.

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The following tables presents loans identified as impaired by class of loans as of June 30, 2012 and December 31, 2011, which are all considered Level 3.

(Dollar amounts in thousands)	Unpaid Principal Balance	June 30, 2012	
		Allowance for Loan Losses Allocated	Fair Value
Commercial			
Commercial & Industrial	\$ 18,060	\$ 4,040	\$ 14,020
Farmland	891	49	842
Non Farm, Non Residential	4,484	198	4,286
Agriculture			
All Other Commercial	1,311	93	1,218
Residential			
First Liens	1,213	190	1,023
Home Equity			
Junior Liens			
Multifamily			
All Other Residential			
Consumer			
Motor Vehicle			
All Other Consumer			
TOTAL	\$ 25,959	\$ 4,570	\$ 21,389

(Dollar amounts in thousands)	Unpaid Principal Balance	December 31, 2011	
		Allowance for Loan Losses Allocated	Fair Value
Commercial			
Commercial & Industrial	\$ 17,890	\$ 2,664	\$ 15,226
Farmland	891	49	842
Non Farm, Non Residential	9,260	957	8,303
Agriculture			
All Other Commercial	1,517	66	1,451
Residential			
First Liens	1,963	190	1,773
Home Equity			
Junior Liens	879	347	532
Multifamily	250		250
All Other Residential			
Consumer			
Motor Vehicle			
All Other Consumer			
TOTAL	\$ 32,650	\$ 4,273	\$ 28,377

(Dollar amounts in thousands)	Carrying Value	June 30, 2012		
		Fair Value Measurement Using		Level 3
		Level 1	Level 2	
Other real estate - commercial	\$ 4,763	\$	\$	\$ 4,763
Other real estate - residential	2,400			2,400
TOTAL	\$ 7,163	\$	\$	\$ 7,163

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(Dollar amounts in thousands)	Carrying Value	December 31, 2011 Fair Value Measurement Using		
		Level 1	Level 2	Level 3
Other real estate - commercial	\$ 2,080	\$	\$	\$ 2,080
Other real estate - residential	2,884			2,884
TOTAL	\$ 4,964	\$	\$	\$ 4,964

The carrying amounts and estimated fair value of financial instruments at June 30, 2012 and December 31, 2011, 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 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.

(Dollar amounts in thousands)	Carrying Value	June 30, 2012 Fair Value			Total
		Level 1	Level 2	Level 3	
Cash and due from banks	\$ 84,669	\$ 18,484	\$ 66,185	\$	\$ 84,669
Federal funds sold	27,472		27,472		27,472
Securities available for sale	658,751	320	643,986	14,445	658,751
Restricted stock	21,296	n/a	n/a	n/a	n/a
Loans, net	1,857,631			1,953,612	1,953,612
FDIC Indemnification Asset	1,608		1,608		1,608
Accrued interest receivable	11,829		3,087	8,742	11,829
Deposits	(2,253,221)		(2,258,753)		(2,258,753)
Short term borrowings	(47,091)		(47,091)		(47,091)
Federal Home Loan Bank advances	(140,013)		(147,351)		(147,351)
Other borrowings	(6,098)		(6,098)		(6,098)
Accrued interest payable	(1,299)		(1,299)		(1,299)

Cash and due from banks	134,280	134,280
Federal funds sold	11,725	11,725
Securities available for sale	666,287	666,287
Restricted stock	22,282	n/a
Loans, net	1,874,438	1,888,263
FDIC Indemnification Asset	2,384	2,384
Accrued interest receivable	12,947	12,947
Deposits	(2,274,499)	(2,279,739)
Short term borrowings	(100,022)	(100,022)
Federal Home Loan Bank advances	(140,231)	(144,089)
Other borrowings	(6,196)	(6,196)
Accrued interest payable	(1,829)	(1,829)

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

	(000 s)	
	June 30, 2012	December 31, 2011
Federal Funds Purchased	\$ 5,625	\$ 43,167
Repurchase Agreements	41,466	56,855
Note Payable - U.S. Government	0	0
	\$ 47,091	\$ 100,022

6. Other Borrowings

Other borrowings at period-end are summarized as follows:

	(000 s)	
	June 30, 2012	December 31, 2011
FHLB Advances	\$ 140,013	\$ 140,231
Junior subordinated debentures (variable rate) Maturing December 2037	6,098	6,196
	\$ 146,111	\$ 146,427

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	
	2012	2011	2012	2011	2012	2011	2012	2011
Service cost	\$ 1,218	\$ 775	\$ 15	\$ 27	\$ 2,436	\$ 1,550	\$ 30	\$ 55
Interest cost	917	824	43	60	1,833	1,648	86	120
Expected return on plan assets	(815)	(964)			(1,629)	(1,929)		
Amortization of transition obligation			15	15			30	30
Net amortization of prior service cost	41	(4)			83	(9)		
Net amortization of net (gain) loss	567	161			1,135	321		
Net Periodic Benefit Cost	\$ 1,928	\$ 792	\$ 73	\$ 102	\$ 3,858	\$ 1,581	\$ 146	\$ 205

Employer Contributions

First Financial Corporation previously disclosed in its financial statements for the year ended December 31, 2011 that it expected to contribute \$3.8 and \$1.5 million respectively to its Pension Plan and ESOP and \$225,000 to the Post Retirement Health Benefits Plan in 2011. Contributions of \$1.4 million and \$103 thousand have been made through the first six months of 2012 for the Pension Plan and the Post Retirement Health Benefits plan, respectively.

8. New accounting standards

Update Number 2011-04 Fair Value Measurement (Topic 820): *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS*. This update to Fair Value Measurement (Topic 820) results in common fair value measurement and disclosure requirements in U.S. GAAP and IFRS. The amendments in this update explain how to measure fair value. They do not require additional fair value measurements and are not intended to establish valuation standards or affect valuation practices outside of financial reporting. The amendments in this update are to be applied prospectively and are effective during interim and annual periods beginning after December 15, 2011. The Corporation has adopted this update as of January 1, 2012. Adoption had not resulted in any changes in valuation techniques nor related inputs.

Update Number 2011-05 Comprehensive Income (Topic 220): *Presentation of Comprehensive Income*. This accounting standard update was issued to increase the prominence of items reported in other comprehensive income and to facilitate the convergence of U.S. GAAP and IFRS. Current U.S. GAAP allows the Corporation to present other comprehensive income as part of the statement of changes in stockholders' equity. This accounting standard update eliminates that option and requires consecutive presentation of the statement of net income and the statement of comprehensive income. The requirement to report

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comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements are effective for public entities for reporting periods beginning after December 15, 2011 and will be applied retrospectively.

Update Number 2011-12 Comprehensive Income (Topic 220): *Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards update No. 2011-05*. This update to Comprehensive Income (Topic 220) defers the requirement to present items that are reclassified from accumulated other comprehensive income to net income separately with their respective components of net income and other comprehensive income. The deferral supersedes only the paragraphs pertaining to how and where reclassification adjustments are presented. The amendments in this update are effective for public entities for reporting periods beginning after December 15, 2011.

9. Acquisitions and FDIC Indemnification Asset

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.

First Financial paid PNB cash in the amount of \$47 million and assumed certain liabilities of PNB in the aggregate amount of approximately \$8.2 million. The acquisition consisted of assets and liabilities with a fair value of approximately \$413.0 million, including \$245.3 million of loans, \$95.5 million of investment securities, \$62.0 million of cash and cash equivalents and \$361.2 million of deposits. A customer related core deposit intangible asset of \$2.1 million was also recorded. Based upon the acquisition date fair values of the net assets acquired, goodwill of \$29.8 million was recorded, all of which is expected to be tax deductible. \$715 thousand was added to goodwill in the second quarter as a result of the determination that the terms of a land lease required rents in excess of current market rents. A liability was recorded which will result in rent expense being recorded at market rates. As required by the acquisition accounting rules, this adjustment is reflected retrospectively, at December 31, 2011. During the second quarter of 2012, management also completed their analysis of acquired loans and the determination of which loans were purchased credit impaired (PCI). As a result of that analysis, PCI loans were determined to have a fair value of \$22.0 million and a contractual amount due of \$29.0 million. The finalization of the loan analysis did not result in a change in loan fair value or goodwill. These factors, purchase premium paid, holding company debt assumed and amount paid in excess of the loans fair values are the primary components of goodwill. At June 30, 2012, management has finalized its fair value estimates related to the Transaction.

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. The acquisition consisted of assets worth a fair value of approximately \$151.8 million, including \$77.5 million of loans, \$24.2 million of investment securities, \$31.0 million of cash and cash equivalents and \$146.3 million of liabilities, including \$145.7 million of deposits. A customer related core deposit intangible asset of \$4.6 million was also recorded. In addition to the excess of liabilities over assets, the Bank received approximately \$14.6 million in cash from the FDIC. Based upon the acquisition date fair values of the net assets acquired, no goodwill was recorded. The transaction resulted in a gain of \$5.1 million, which is included in non-interest income in the December 31, 2009 Consolidated Statement of Operations. 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

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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 \$17.7 million for losses and carrying expenses and currently carries a balance of \$1.6 million. Included in the current balance is the estimate of \$478 thousand for 80% of the loans subject to the loss-sharing agreement identified in the allowance for loan loss evaluation as future potential losses.

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 June 30, 2012 and December 31, 2011, consisted of loans accounted for in accordance with FASB ASC 310-30, loans not subject to FASB ASC 310-30 and other assets as shown in the following table:

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(Dollar amounts in thousands)	June 30, 2012			
	ASC 310-30 Loans	Non ASC 310-30 Loans	Other	Total
Loans	\$ 4,800	\$ 25,151	\$	\$ 29,951
Foreclosed Assets			1,464	1,464
Total Covered Assets	\$ 4,800	\$ 25,151	\$ 1,464	\$ 31,415

(Dollar amounts in thousands)	December 31, 2011			
	ASC 310-30 Loans	Non ASC 310-30 Loans	Other	Total
Loans	\$ 6,875	\$ 28,173	\$	\$ 35,048
Foreclosed Assets			1,665	1,665
Total Covered Assets	\$ 6,875	\$ 28,173	\$ 1,665	\$ 36,713

The rollforward of the FDIC Indemnification asset is as follows:

(Dollar amounts in thousands)	Quarter Ended June 30, 2012	Six Months Ended June 30, 2012	Year Ended December 31, 2011
Beginning balance	\$ 1,802	\$ 2,384	\$ 3,977
Accretion			38
Net changes in losses and expenses added	1,471	1,087	(192)
Reimbursements from the FDIC	(1,665)	(1,863)	(1,439)
TOTAL	\$ 1,608	\$ 1,608	\$ 2,384

On the acquisition date, the preliminary estimate of the contractually required payments receivable for all FASB ASC310-30 loans acquired in the acquisition were \$31.6 million, the cash flows expected to be collected were \$18.4 million including interest, and the estimated fair value of the loans was \$16.7 million. These amounts were determined based upon the estimated remaining life of the underlying loans, which include the effects of estimated prepayments. At June 30, 2012, a majority of these loans were valued based on the liquidation value of the underlying collateral, because the expected cash flows are primarily based on the liquidation of underlying collateral and the timing and amount of the cash flows could not be reasonably estimated. There was a \$1.0 million allowance for credit losses related to these loans at June 30, 2012. On the acquisition date, the preliminary estimate of the contractually required payments receivable for all non FASB ASC310-30 loans acquired in the acquisition was \$58.4 million and the estimated fair value of the loans was \$60.7 million. The impact to the Corporation from the amortization and accretion of premiums and discounts was immaterial.

ITEMS 2. and 3. Management's Discussion and Analysis of Financial Condition and Results of Operations and Quantitative and Qualitative Disclosures About Market Risk

The purpose of this discussion is to point out key factors in the Corporation's recent performance compared with earlier periods. The discussion should be read in conjunction with the financial statements beginning on page three of this report. All figures are for the consolidated entities. It is presumed the readers of these financial statements and of the following narrative have previously read the Corporation's financial statements for 2011 in the 10-K filed for the fiscal year ended December 31, 2011.

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This Quarterly Report on Form 10-Q contains forward-looking statements. Forward-looking statements provide current expectations or forecasts of future events and are not guarantees of future performance, nor should they be relied upon as representing management's views as of any subsequent date. The forward-looking statements are based on management's expectations and are subject to a number of risks and uncertainties. Although management believes that the expectations reflected in such forward-looking statements are reasonable, actual results may differ materially from those expressed or implied in such statements. Risks and uncertainties that could cause actual results to differ materially include, without limitation, the Corporation's ability to effectively execute its business plans; changes in general economic and financial market conditions; changes in interest rates; changes in the competitive environment; continuing consolidation in the financial services industry; new litigation or changes in existing litigation; losses, customer bankruptcy, claims and assessments; changes in banking regulations or other regulatory or legislative requirements affecting the Corporation's business; and changes in accounting policies or procedures as may be required by the Financial Accounting Standards Board or other regulatory agencies. Additional information concerning factors that could cause actual results to differ materially from those expressed or implied in the forward-looking statements is available in the Corporation's Form 10-K for the year ended December 31, 2011, and subsequent filings with the United States Securities and Exchange Commission (SEC). Copies of these filings are available at no cost on the SEC's Web site at www.sec.gov or on the Corporation's Web site at www.first-online.com. Management may elect to update forward-looking statements at some future point; however, it specifically disclaims any obligation to do so.

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Critical Accounting Policies

Certain of the Corporation's accounting policies are important to the portrayal of the Corporation's financial condition and results of operations, since they require management to make difficult, complex or subjective judgments, some of which may relate to matters that are inherently uncertain. Estimates associated with these policies are susceptible to material changes as a result of changes in facts and circumstances. Facts and circumstances which could affect these judgments include, without limitation, changes in interest rates, in the performance of the economy or in the financial condition of borrowers. Management believes that its critical accounting policies include determining the allowance for loan losses and the valuation of goodwill and valuing investment securities. See further discussion of these critical accounting policies in the 2011 Form 10-K.

Summary of Operating Results

Net income for the three and six months ended June 30, 2012 was \$8.7 and \$16.1 million respectively compared to \$8.4 and \$17.2 million for the same period of 2011. Basic earnings per share increased to \$0.66 for the second quarter of 2012 compared to \$0.64 for same period of 2011. Year to date earnings per share at June 30, 2012 is \$1.22 compared to \$1.31 for the same period of 2011. Return on Assets and Return on Equity were 1.20% and 9.43% respectively, for the three months ended June 30, 2012 compared to 1.35% and 9.93% for the three months ended June 30, 2011. Return on Assets and Equity were 1.11% and 8.96% respectively, for the six months ended June 30, 2012 compared to 1.38% and 10.34% for the six months ended June 30, 2011.

The primary components of income and expense affecting net income are discussed in the following analysis.

Net Interest Income

The Corporation's primary source of earnings is net interest income, which is the difference between the interest earned on loans and other investments and the interest paid for deposits and other sources of funds. Net interest income increased \$2.5 million in the three months ended June 30, 2012 to \$27.7 million from \$25.2 million in the same period in 2011. The net interest margin for the three months ended June 30, 2012 is 4.42% compared to 4.55% for the same period of 2011, a 2.9% decrease, driven by a greater decline in income realized on earning assets than the decline in the costs of funding. Net interest income for the six months ended June 30, 2012 is increased 9.8% or \$4.9 million to \$54.8 million from the \$49.9 million for the six months ended June 30, 2011.

Non-Interest Income

Non-interest income for the three months ended June 30, 2012 was \$9.8 million, an increase of \$1.9 million from the \$7.9 million for the same period of 2011. Investment security gains and gains from the sale of mortgage loans increased \$1.1 million over the same period of 2011. Non-interest income for the six months ended June 30, 2012 was \$3.1 million higher than the same period of 2011. All categories of non-interest income were improved over the results from the same period of 2011.

Non-Interest Expenses

The Corporation's non-interest expense for the quarter ended June 30, 2012 increased by \$3.7 million to \$23.1 million compared to the same period in 2011. Salaries and fringe benefits increased \$2.4 million and account for most of this increase. For the six months ended June 30, 2012 non-interest expense of \$46.5 million was increased \$8.2 million over the same period of 2011. Salaries contributed \$2.8 million to this increase however the second quarter increase in salaries was only \$842 thousand compared to the \$2.0 increase in the first quarter. Fringe benefits, primarily driven by increased pension expense was increased \$2.5 million for the six months ended June 30, 2012 compared to the same period of 2011. Other expenses, which include many costs from the acquisition of Freestar bank that will not recur, was increased \$1.1 million in the first quarter of 2012 and \$331 thousand in the second quarter compared to the same periods of 2011.

Allowance for Loan Losses

The Corporation's provision for loan losses increased \$2.2 million to \$4.7 million for the first half of 2012 compared to \$2.5 million for the same period of 2011 and was \$1.8 million for the second quarter of 2012 compared to \$1.4 million in 2011. Net charge offs for the second quarter of 2012 were \$1.4 million compared to \$1.6 million for the same period of 2011. Net charge offs for the six months ended June 30, 2012 were \$4.8 million compared to \$3.1 million for the same period of 2011. During 2012, the volume of impaired loans and specific allocations for these loans increased. The allowance for loan losses has increased slightly to \$20.1 million at June 30, 2012 compared to \$19.2 million at December 31, 2011. Based on management's analysis of the current portfolio, an evaluation that includes consideration of historical loss experience, non-performing loans trends, and probable incurred losses on identified problem loans, management believes the allowance is adequate.

Non-performing Loans

Non-performing loans consist of (1) non-accrual loans on which the ultimate collectability of the full amount of interest is uncertain, (2) loans which have been renegotiated to provide for a reduction or deferral of interest or principal because of a deterioration in the financial position of the borrower, and (3) loans past due ninety days or more as to principal or interest. Non-performing loans increased to \$59.6 million at June 30, 2012 compared to \$56.4 million at December 31, 2011. Non-accrual and restructured loans both declined but accruing loans past due over 90 days increased to \$8.0 million due primarily to one multi-family residential loan credit of \$5.5 million that has become past due more than 90 days. This loan is being monitored and

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remains on accrual due to sufficiency of collateral. A summary of non-performing loans at June 30, 2012 and December 31, 2011 follows:

	(000 s)	
	June 30, 2012	December 31, 2011
Non-accrual loans	\$ 36,066	\$ 38,102
Restructured loans	15,565	16,275
Accruing loans past due over 90 days	7,995	2,047
	\$ 59,626	\$ 56,424
Ratio of the allowance for loan losses as a percentage of non-performing loans	33.7%	34.1%

The following loan categories comprise significant components of the nonperforming loans:

	(000 s)	
	June 30, 2012	December 31, 2011
<u>Non-accrual loans</u>		
Commercial loans	\$ 23,710	\$ 26,590
Residential loans	10,502	9,477
Consumer loans	1,854	2,035
	\$ 36,066	\$ 38,102
<u>Past due 90 days or more</u>		
Commercial loans	\$ 1,210	\$ 610
Residential loans	6,669	1,358
Consumer loans	116	79
	\$ 7,995	\$ 2,047

The following table is information on the non-accrual loans at June 30, 2012 and December 31, 2011 that were from the acquisition of assets from The First National Bank of Danville and are included in non-accrual loans above.

	(000 s) June 30, 2012	(000 s) December 31, 2011
<u>Non-accrual loans</u>		
Commercial loans	\$ 4,144	\$ 5,086
1-4 family residential	330	506
Installment loans	\$ 4,474	\$ 5,592

Interest Rate Sensitivity and Liquidity

First Financial Corporation has established risk measures, limits and policy guidelines for managing interest rate risk and liquidity. Responsibility for management of these functions resides with the Asset Liability Committee. The primary goal of the Asset Liability Committee is to maximize net interest income within the interest rate risk limits approved by the Board of Directors.

Interest Rate Risk

Management considers interest rate risk to be the Corporation's most significant market risk. Interest rate risk is the exposure to changes in net interest income as a result of changes in interest rates. Consistency in the Corporation's net interest income is largely dependent on the effective management of this risk.

The Asset Liability position is measured using sophisticated risk management tools, including earning simulation and market value of equity sensitivity analysis. These tools allow management to quantify and monitor both short-term and long-term exposure to interest rate risk. Simulation modeling measures the effects of changes in interest rates, changes in the shape of the yield curve and the effects of embedded options on net interest income. This measure projects earnings in the various environments over the next three years. It is important to note that measures of interest rate risk have limitations and are dependent on various assumptions. These assumptions are inherently uncertain and, as a result, the model cannot precisely predict the impact of interest rate fluctuations on net interest income. Actual results will differ from simulated results due to timing, frequency and amount of interest rate changes as well as overall market conditions. The Committee has performed a thorough analysis of these assumptions and believes them to be valid and theoretically sound. These assumptions are continuously monitored for behavioral changes.

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The Corporation from time to time utilizes derivatives to manage interest rate risk. Management continuously evaluates the merits of such interest rate risk products but does not anticipate the use of such products to become a major part of the Corporation's risk management strategy.

The table below shows the Corporation's estimated sensitivity profile as of June 30, 2012. The change in interest rates assumes a parallel shift in interest rates of 100 and 200 basis points. Given a 100 basis point increase in rates, net interest income would increase 3.71% over the next 12 months and increase 6.55% over the following 12 months. Given a 100 basis point decrease in rates, net interest income would decrease 1.10% over the next 12 months and decrease 3.05% over the following 12 months. These estimates assume all rate changes occur overnight and management takes no action as a result of this change.

Basis Point Interest Rate Change	Percentage Change in Net Interest Income		
	12 months	24 months	36 months
Down 200	-2.32%	-6.40%	-6.13%
Down 100	-1.10	-3.05	-4.19
Up 100	3.71	6.55	9.12
Up 200	5.14	10.32	15.48

Typical rate shock analysis does not reflect management's ability to react and thereby reduce the effect of rate changes, and represents a worst-case scenario.

Liquidity Risk

Liquidity represents an institution's ability to provide funds to satisfy demands from depositors, borrowers, and other creditors by either converting assets into cash or accessing new or existing sources of incremental funds. Generally the Corporation relies on deposits, loan repayments and repayments of investment securities as its primary sources of funds. The Corporation has \$8.3 million of investments that mature throughout the next 12 months. The Corporation also anticipates \$115.9 million of principal payments from mortgage-backed securities. Given the current rate environment, the Corporation anticipates \$7.9 million in securities to be called within the next 12 months. The Corporation also has unused borrowing capacity available with the Federal Home Loan Bank of Indianapolis and several correspondent banks. With these many sources of funds, the Corporation currently anticipates adequate liquidity to meet the expected obligations of its customers.

Financial Condition

Comparing the first six months of 2012 to the same period in 2011, loans, net of unearned discount, have increased to \$1.88 billion from \$1.65 billion. Deposits also increased to \$2.3 billion at June 30, 2012 from \$1.9 billion at June 30, 2011. Shareholders' equity increased 4.6% or \$15.6 million. This financial performance increased book value per share 3.8% to \$27.07 at June 30, 2012 from \$26.07 at June 30, 2011. Book value per share is calculated by dividing the total shareholders' equity by the number of shares outstanding.

Capital Adequacy

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As of June 30, 2012, the most recent notification from the respective regulatory agencies categorized the subsidiary banks as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the banks must maintain minimum total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the bank's category. Below are the capital ratios for the Corporation and lead bank.

	June 30, 2012	December 31, 2011	To Be Well Capitalized
Total risk-based capital			
Corporation	15.35%	15.08%	N/A
First Financial Bank	14.96%	14.71%	10.00%
Tier I risk-based capital			
Corporation	14.45%	14.21%	N/A
First Financial Bank	14.18%	13.96%	6.00%
Tier I leverage capital			
Corporation	11.41%	12.73%	N/A
First Financial Bank	11.18%	12.51%	5.00%

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ITEM 4. Controls and Procedures

First Financial Corporation's management is responsible for establishing and maintaining effective disclosure controls and procedures, as defined under Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934. As of June 30, 2012, an evaluation was performed under the supervision and with the participation of management, including the principal executive officer and principal financial officer, of the effectiveness of the design and operation of the Corporation's disclosure controls and procedures. Based on that evaluation, management, including the principal executive officer and principal financial officer, concluded that the Corporation's disclosure controls and procedures as of June 30, 2012 were effective in ensuring material information required to be disclosed in this Quarterly Report on Form 10-Q was recorded, processed, summarized, and reported on a timely basis. Additionally, there was no change in the Corporation's internal control over financial reporting that occurred during the quarter ended June 30, 2012 that has materially affected, or is reasonably likely to materially affect, the Corporation's internal control over financial reporting.

PART II Other Information

ITEM 1. Legal Proceedings.

There are no material pending legal proceedings, other than routine litigation incidental to the business of the Corporation or its subsidiaries, to which the Corporation or any of the subsidiaries is a party or of which any of their respective property is subject. Further, there is no material legal proceeding in which any director, officer, principal shareholder, or affiliate of the Corporation or any of its subsidiaries, or any associate of such director, officer, principal shareholder or affiliate is a party, or has a material interest, adverse to the Corporation or any of its subsidiaries.

ITEM 1 A. Risk Factors.

There have been no material changes in the risk factors from those disclosed in the Corporation's 2011 financial statements in the Form 10-K filed for December 31, 2011.

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

(a) None.

(b) Not applicable.

(c) Purchases of Equity Securities

The Corporation periodically acquires shares of its common stock directly from shareholders in individually negotiated transactions. The Corporation has not adopted a formal policy or adopted a formal program for repurchases of shares of its common stock. There were no shares purchased by the Corporation during the quarter covered by this report.

ITEM 3. Defaults upon Senior Securities.

Not applicable.

ITEM 4. Mine Safety Disclosures

ITEM 5. Other Information.

Not applicable.

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ITEM 6. Exhibits.

Exhibit No.:	Description of Exhibit:
3.1	Amended and Restated Articles of Incorporation of First Financial Corporation, incorporated by reference to Exhibit 3(i) of the Corporation's Form 10-Q filed for the quarter ended September 30, 2002.
3.2	Code of By-Laws of First Financial Corporation, incorporated by reference to Exhibit 3(ii) of the Corporation's Form 8-K filed on July 27, 2009.
10.1*	Employment Agreement for Norman L. Lowery, dated and effective December 1, 2011, incorporated by reference to Exhibit 10.01 of the Corporation's Form 8-K filed on February 23, 2012.
10.2*	2001 Long-Term Incentive Plan of First Financial Corporation, incorporated by reference to Exhibit 10.3 of the Corporation's Form 10-Q filed for the quarter ended September 30, 2002.
10.3*	2012 Schedule of Director Compensation, incorporated by reference to Exhibit 10.3 of the Corporation's Form 10-K filed for the fiscal year ended December 31, 2011.
10.4*	2012 Schedule of Named Executive Officer Compensation, incorporated by reference to Exhibit 10.4 of the Corporation's Form 10-K filed for the fiscal year ended December 31, 2011.
10.5*	2005 Long-Term Incentive Plan of First Financial Corporation, incorporated by reference to Exhibit 10.7 of the Corporation's Form 8-K filed on September 4, 2007.
10.6*	2005 Executives Deferred Compensation Plan, incorporated by reference to Exhibit 10.5 of the Corporation's Form 8-K filed on September 4, 2007.
10.7*	2005 Executives Supplemental Retirement Plan, incorporated by reference to Exhibit 10.6 of the Corporation's Form 8-K filed on September 4, 2007.
10.9*	First Financial Corporation 2010 Long-Term Incentive Compensation Plan incorporated by reference to Exhibit 10.9 of the Corporation's Form 10-K filed for the fiscal year ended December 31, 2010.
10.10*	First Financial Corporation 2011 Short-Term Incentive Compensation Plan incorporated by reference to Exhibit 10.10 of the Corporation's Form 10-K filed for the fiscal year ended December 31, 2010.
10.11*	First Financial Corporation 2011 Omnibus Equity Incentive Plan incorporated by reference to Exhibit 10.11 of the Corporation's Form 10-Q for the quarter ended March 31, 2011 filed on May 9, 2011.
10.12*	Form of Restricted Stock Award Agreement under the First Financial Corporation 2011 Omnibus Equity Incentive Plan incorporated by reference to Exhibit 10.12 of the Corporation's Form 10-Q for the quarter ended March 31, 2012 filed on May 10, 2012.
31.1	Sarbanes-Oxley Act 302 Certification for Quarterly Report on Form 10-Q for the quarter ended June 30, 2012 by Principal Executive Officer, dated August 7, 2012
31.2	Sarbanes-Oxley Act 302 Certification for Quarterly Report on Form 10-Q for the quarter ended June 30, 2012 by Principal Financial Officer, dated August 7, 2012.
32.1	Certification, dated August 9, 2012, of Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2005 on Form 10-Q for the quarter ended June 30, 2012.
101.1	

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The following financial information from the Corporation's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012, formatted in XBRL: (i) Consolidated Balance Sheets at June 30, 2012 and December 31, 2011; (ii) Consolidated Statements of Income and Comprehensive Income for the three months and six months ended June 30, 2012 and 2011; (iii) Consolidated Statements of Cash Flows for the six months ended June 30, 2012 and 2011; (iv) Consolidated Statements of Shareholders' Equity for the six months ended June 30, 2012 and 2011; and (v) Notes to Consolidated Financial Statements.**

*Management contract or compensatory plan or arrangement.

**Furnished, not filed, for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.

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SIGNATURES

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



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ITEM 6. Exhibits.

Exhibit No.:	Description of Exhibit:
3.1	Amended and Restated Articles of Incorporation of First Financial Corporation, incorporated by reference to Exhibit 3(i) of the Corporation's Form 10-Q filed for the quarter ended September 30, 2002.
3.2	Code of By-Laws of First Financial Corporation, incorporated by reference to Exhibit 3(ii) of the Corporation's Form 8-K filed on July 27, 2009.
10.1*	Employment Agreement for Norman L. Lowery, dated and effective December 1, 2011, incorporated by reference to Exhibit 10.01 of the Corporation's Form 8-K filed on February 23, 2012.
10.2*	2001 Long-Term Incentive Plan of First Financial Corporation, incorporated by reference to Exhibit 10.3 of the Corporation's Form 10-Q filed for the quarter ended September 30, 2002.
10.3*	2012 Schedule of Director Compensation, incorporated by reference to Exhibit 10.3 of the Corporation's Form 10-K filed for the fiscal year ended December 31, 2011.
10.4*	2012 Schedule of Named Executive Officer Compensation, incorporated by reference to Exhibit 10.4 of the Corporation's Form 10-K filed for the fiscal year ended December 31, 2011.
10.5*	2005 Long-Term Incentive Plan of First Financial Corporation, incorporated by reference to Exhibit 10.7 of the Corporation's Form 8-K filed on September 4, 2007.
10.6*	2005 Executives Deferred Compensation Plan, incorporated by reference to Exhibit 10.5 of the Corporation's Form 8-K filed on September 4, 2007.
10.7*	2005 Executives Supplemental Retirement Plan, incorporated by reference to Exhibit 10.6 of the Corporation's Form 8-K filed on September 4, 2007.
10.9*	First Financial Corporation 2010 Long-Term Incentive Compensation Plan incorporated by reference to Exhibit 10.9 of the Corporation's Form 10-K filed for the fiscal year ended December 31, 2010.
10.10*	First Financial Corporation 2011 Short-Term Incentive Compensation Plan incorporated by reference to Exhibit 10.10 of the Corporation's Form 10-K filed for the fiscal year ended December 31, 2010.
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*Management contract or compensatory plan or arrangement.

**Furnished, not filed, for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.