

FIRST FINANCIAL CORP /IN/
Form 10-Q
November 07, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For The Quarterly Period Ended September 30, 2018

Commission File Number 0-16759

FIRST FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

INDIANA	35-1546989
(State or other jurisdiction incorporation or organization)	(I.R.S. Employer Identification No.)

One First Financial Plaza, Terre Haute, IN	47807
(Address of principal executive office)	(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes 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"/>
Emerging growth company <input type="checkbox"/>	

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

of the Securities Act.

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

As of November 5, 2018, the registrant had outstanding 12,255,045 shares of common stock, without par value.

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Part I – Financial Information

Item 1. Financial Statements

FIRST FINANCIAL CORPORATION

CONSOLIDATED BALANCE SHEETS

(Dollar amounts in thousands, except per share data)

	September 30, 2018	December 31, 2017
	(unaudited)	
ASSETS		
Cash and due from banks	\$ 50,018	\$ 74,107
Federal funds sold	7,600	—
Securities available-for-sale	785,693	814,931
Loans:		
Commercial	1,150,536	1,139,490
Residential	443,264	436,143
Consumer	345,132	327,976
	1,938,932	1,903,609
(Less) plus:		
Net deferred loan costs	2,848	3,152
Allowance for loan losses	(20,301)	(19,909)
	1,921,479	1,886,852
Restricted stock	10,390	10,379
Accrued interest receivable	14,630	12,913
Premises and equipment, net	46,985	48,272
Bank-owned life insurance	85,901	85,016
Goodwill	34,355	34,355
Other intangible assets	1,310	1,630
Other real estate owned	520	1,880
Other assets	22,054	30,333
TOTAL ASSETS	\$ 2,980,935	\$ 3,000,668
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest-bearing	\$ 420,337	\$ 425,001
Interest-bearing:		
Certificates of deposit exceeding the FDIC insurance limits	40,904	43,178
Other interest-bearing deposits	1,945,820	1,990,474
	2,407,061	2,458,653
Short-term borrowings	58,680	57,686
FHLB advances	35,000	—
Other liabilities	52,420	70,760
TOTAL LIABILITIES	2,553,161	2,587,099
Shareholders' equity		
Common stock, \$.125 stated value per share;		
Authorized shares-40,000,000		
Issued shares-14,612,540 in 2018 and 14,595,320 in 2017		
Outstanding shares-12,255,045 in 2018 and 12,246,464 in 2017	1,824	1,822
Additional paid-in capital	76,181	75,624

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Retained earnings	451,918	420,275
Accumulated other comprehensive loss	(32,310)	(14,704)
Less: Treasury shares at cost-2,357,495 in 2018 and 2,348,856 in 2017	(69,839)	(69,448)
TOTAL SHAREHOLDERS' EQUITY	427,774	413,569
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$2,980,935	\$ 3,000,668

See accompanying notes.

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CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(Dollar amounts in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
INTEREST INCOME:				
Loans, including related fees	\$25,581	\$ 23,119	\$73,982	\$ 67,385
Securities:				
Taxable	3,601	3,500	13,141	10,887
Tax-exempt	1,873	1,859	5,573	5,529
Other	320	327	959	978
TOTAL INTEREST INCOME	31,375	28,805	93,655	84,779
INTEREST EXPENSE:				
Deposits	2,365	1,561	6,254	4,307
Short-term borrowings	167	98	354	215
Other borrowings	16	38	63	82
TOTAL INTEREST EXPENSE	2,548	1,697	6,671	4,604
NET INTEREST INCOME	28,827	27,108	86,984	80,175
Provision for loan losses	1,470	1,185	4,298	3,821
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	27,357	25,923	82,686	76,354
NON-INTEREST INCOME:				
Trust and financial services	1,133	1,194	3,888	3,660
Service charges and fees on deposit accounts	3,002	3,048	8,733	8,829
Other service charges and fees	3,256	3,070	9,747	9,369
Securities gains, net	3	27	5	44
Recovery of security previously written down for OTTI	—	—	4,158	3,061
Gain on sales of mortgage loans	618	535	1,458	1,255
Other	897	666	1,984	1,484
TOTAL NON-INTEREST INCOME	8,909	8,540	29,973	27,702
NON-INTEREST EXPENSE:				
Salaries and employee benefits	12,485	12,489	38,028	37,780
Occupancy expense	1,894	1,769	5,308	5,298
Equipment expense	1,673	1,792	5,016	5,424
FDIC Expense	223	228	673	689
Other	6,022	6,006	19,166	17,758
TOTAL NON-INTEREST EXPENSE	22,297	22,284	68,191	66,949
INCOME BEFORE INCOME TAXES	13,969	12,179	44,468	37,107
Provision for income taxes	2,656	3,385	8,941	10,592
NET INCOME	11,313	8,794	35,527	26,515
OTHER COMPREHENSIVE INCOME (LOSS)				
Change in unrealized gains/(losses) on securities, net of reclassifications and taxes	(3,702)	(51)	(16,083)	8,182
Change in funded status of post retirement benefits, net of taxes	281	184	843	551
COMPREHENSIVE INCOME	\$7,892	\$ 8,927	\$20,287	\$ 35,248
PER SHARE DATA				
Basic and Diluted Earnings per Share	\$0.92	\$ 0.72	\$2.90	\$ 2.17

Weighted average number of shares outstanding (in thousands)	12,255	12,224	12,253	12,221
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See accompanying notes.

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CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Three Months Ended

September 30, 2018, and 2017

(Dollar amounts in thousands, except per share data)

(Unaudited)

	Common Stock	Additional Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Treasury Stock	Total
Balance, July 1, 2017	\$ 1,821	\$ 74,877	\$433,435	\$ (5,564)	\$(70,115)	\$434,454
Net income	—	—	8,794	—	—	8,794
Other comprehensive income	—	—	—	133	—	133
Omnibus Equity Incentive Plan 1	—	176	—	—	—	177
Balance, September 30, 2017	\$ 1,822	\$ 75,053	\$442,229	\$ (5,431)	\$(70,115)	\$443,558
Balance, July 1, 2018	\$ 1,823	\$ 75,995	\$440,605	\$ (28,889)	\$(69,839)	\$419,695
Net income	—	—	11,313	—	—	11,313
Other comprehensive loss	—	—	—	(3,421)	—	(3,421)
Omnibus Equity Incentive Plan 1	—	186	—	—	—	187
Balance, September 30, 2018	\$ 1,824	\$ 76,181	\$451,918	\$ (32,310)	\$(69,839)	\$427,774

See accompanying notes.

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CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Nine Months Ended

September 30, 2018, and 2017

(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, 2017	\$ 1,820	\$ 74,525	\$ 421,826	\$ (14,164)	\$(69,612)	\$ 414,395
Net income	—	—	26,515	—	—	26,515
Other comprehensive income	—	—	—	8,733	—	8,733
Omnibus Equity Incentive Plan	2	528	—	—	—	530
Treasury shares purchased (9,524 shares)	—	—	—	—	(503)	(503)
Cash dividends, \$.50 per share	—	—	(6,112)	—	—	(6,112)
Balance, September 30, 2017	\$ 1,822	\$ 75,053	\$ 442,229	\$ (5,431)	\$(70,115)	\$ 443,558
Balance, January 1, 2018	\$ 1,822	\$ 75,624	\$ 420,275	\$ (14,704)	\$(69,448)	\$ 413,569
Net income	—	—	35,527	—	—	35,527
Other comprehensive loss	—	—	—	(15,240)	—	(15,240)
Omnibus Equity Incentive Plan	2	557	—	—	—	559
Treasury shares purchased (8,639 shares)	—	—	—	—	(391)	(391)
ASU 2018-02 adjustment	—	—	2,366	(2,366)	—	—
Cash dividends, \$.51 per share	—	—	(6,250)	—	—	(6,250)
Balance, September 30, 2018	\$ 1,824	\$ 76,181	\$ 451,918	\$ (32,310)	\$(69,839)	\$ 427,774

See accompanying notes.

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

	Nine Months Ended September 30, 2018 2017 (Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	\$35,527	\$26,515
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization (accretion) of premiums and discounts on investments	2,706	2,799
Provision for loan losses	4,298	3,821
Securities (gains)	(5) (44
Loss on sale of other real estate	101	61
Recovery of security previously written down for OTTI	(4,158) (3,061
Restricted stock compensation	559	530
Depreciation and amortization	3,126	3,352
Other, net	(633) 1,857
NET CASH FROM OPERATING ACTIVITIES	41,521	35,830
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of securities available-for-sale	—	9,105
Calls, maturities and principal reductions on securities available-for-sale	112,287	106,993
Purchases of securities available-for-sale	(102,731)	(87,528)
Loans made to customers, net of repayment	(39,119)	(30,771)
Purchase of restricted stock	(11) (20
Proceeds from sales of other real estate owned	1,568	1,314
Net change in federal funds sold	(7,600) (2,446
Additions to premises and equipment	(1,519)	(1,036)
NET CASH FROM INVESTING ACTIVITIES	(37,125)	(4,389)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net change in deposits	(51,592)) 24,880
Net change in short-term borrowings	994	(57,475)
Maturities of other borrowings	(55,600)	(170,132)
Proceeds from other borrowings	90,600	170,000
Purchase of treasury stock	(391) (503
Dividends paid	(12,496)	(12,220)
NET CASH FROM FINANCING ACTIVITIES	(28,485)	(45,450)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(24,089)	(14,009)
CASH AND DUE FROM BANKS, BEGINNING OF PERIOD	74,107	75,012
CASH AND DUE FROM BANKS, END OF PERIOD	\$50,018	\$61,003
See accompanying notes.		

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The accompanying September 30, 2018 and 2017 consolidated financial statements are unaudited. The December 31, 2017 consolidated financial statements are as reported in the First Financial Corporation (the "Corporation") 2017 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, 2017.

1. Significant Accounting Policies

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

The Omnibus Equity Incentive Plan is a long-term incentive plan that was designed to align the interests of participants with the interests of shareholders. Under the plan, awards may be made based on certain performance measures. The grants are made in restricted stock units that are subject to a vesting schedule. These shares vest over 3 years in increments of 33%, 33%, and 34% respectively. At the nine months ended 2018 and 2017, 17,220 and 16,562 shares were awarded, respectively. These shares had a grant date value of \$784 thousand and \$773 thousand for 2018 and 2017, vest over three years, and their grant is not subject to future performance measures. Outstanding shares are increased at the award date for the total shares awarded.

2. Allowance for Loan Losses

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

Allowance for Loan Losses:	September 30, 2018				
(Dollar amounts in thousands)	Commercial	Residential	Consumer	Unallocated	Total
Beginning balance	\$9,498	\$ 1,382	\$ 7,131	\$ 2,060	\$20,071
Provision for loan losses	(106)	(44)	1,593	27	1,470
Loans charged -off	(409)	(158)	(1,781)	—	(2,348)
Recoveries	354	160	594	—	1,108
Ending Balance	\$9,337	\$ 1,340	\$ 7,537	\$ 2,087	\$20,301

Allowance for Loan Losses:	September 30, 2017				
(Dollar amounts in thousands)	Commercial	Residential	Consumer	Unallocated	Total
Beginning balance	\$10,223	\$ 1,514	\$ 6,218	\$ 1,725	\$19,680
Provision for loan losses	(227)	14	1,415	(17)	1,185
Loans charged -off	(281)	(100)	(1,583)	—	(1,964)
Recoveries	222	91	588	—	901
Ending Balance	\$9,937	\$ 1,519	\$ 6,638	\$ 1,708	\$19,802

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

Allowance for Loan Losses:	September 30, 2018				
(Dollar amounts in thousands)	Commercial	Residential	Consumer	Unallocated	Total
Beginning balance	\$10,281	\$ 1,455	\$ 6,709	\$ 1,464	\$19,909
Provision for loan losses	(443)	56	4,062	623	4,298
Loans charged -off	(1,053)	(632)	(5,007)	—	(6,692)
Recoveries	552	461	1,773	—	2,786
Ending Balance	\$9,337	\$ 1,340	\$ 7,537	\$ 2,087	\$20,301

Allowance for Loan Losses:	September 30, 2017				
(Dollar amounts in thousands)	Commercial	Residential	Consumer	Unallocated	Total
Beginning balance	\$9,731	\$ 1,553	\$ 5,767	\$ 1,722	\$18,773
Provision for loan losses	176	(166)	3,825	(14)	3,821
Loans charged -off	(1,059)	(564)	(4,705)	—	(6,328)
Recoveries	1,089	696	1,751	—	3,536
Ending Balance	\$9,937	\$ 1,519	\$ 6,638	\$ 1,708	\$19,802

The following table presents the allocation of the allowance for loan losses and the recorded investment in loans by portfolio segment and based on the impairment method at September 30, 2018 and December 31, 2017.

Allowance for Loan Losses	September 30, 2018				
(Dollar amounts in thousands)	Commercial	Residential	Consumer	Unallocated	Total
Individually evaluated for impairment	\$34	\$ —	\$ —	\$ —	\$34
Collectively evaluated for impairment	9,303	1,340	7,537	2,087	20,267
Acquired with deteriorated credit quality	—	—	—	—	—
Ending Balance	\$9,337	\$ 1,340	\$ 7,537	\$ 2,087	\$20,301

Loans:	September 30, 2018			
(Dollar amounts in thousands)	Commercial	Residential	Consumer	Total
Individually evaluated for impairment	\$5,063	\$ 4,372	\$—	\$9,435
Collectively evaluated for impairment	1,151,707	440,335	346,583	1,938,625
Acquired with deteriorated credit quality	1,527	—	—	1,527
Ending Balance	\$1,158,297	\$ 444,707	\$ 346,583	\$1,949,587

Allowance for Loan Losses:	December 31, 2017				
(Dollar amounts in thousands)	Commercial	Residential	Consumer	Unallocated	Total
Individually evaluated for impairment	619	6	—	—	625
Collectively evaluated for impairment	9,662	1,449	6,709	1,464	19,284
Acquired with deteriorated credit quality	—	—	—	—	—
Ending Balance	\$10,281	\$ 1,455	\$ 6,709	\$ 1,464	\$19,909

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Loans (Dollar amounts in thousands)	December 31, 2017			
	Commercial	Residential	Consumer	Total
Individually evaluated for impairment	9,619	463	—	10,082
Collectively evaluated for impairment	1,134,701	436,944	329,435	1,901,080
Acquired with deteriorated credit quality	1,860	—	—	1,860
Ending Balance	\$ 1,146,180	\$ 437,407	\$ 329,435	\$ 1,913,022

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

(Dollar amounts in thousands)	Unpaid Principal Balance	Recorded Investment	September 30, 2018		Interest Income Recognized	Cash Basis Interest Recognized
			Allowance for Average Loan Losses Allocated	Average Investment		
With no related allowance recorded:						
Commercial						
Commercial & Industrial	\$ 652	\$ 652	\$—	\$ 725	\$	—\$ —
Farmland	3,083	3,083	—	1,468	—	—
Non Farm, Non Residential	—	—	—	1,803	—	—
Agriculture	212	12	—	61	—	—
All Other Commercial	1,142	1,142	—	1,187	—	—
Residential						
First Liens	4,372	4,372	—	3,110	—	—
Home Equity	—	—	—	—	—	—
Junior Liens	—	—	—	29	—	—
Multifamily	—	—	—	—	—	—
All Other Residential	—	—	—	—	—	—
Consumer						
Motor Vehicle	—	—	—	—	—	—
All Other Consumer	—	—	—	—	—	—
With an allowance recorded:						
Commercial						
Commercial & Industrial	174	174	34	405	—	—
Farmland	—	—	—	2,061	—	—
Non Farm, Non Residential	—	—	—	—	—	—
Agriculture	—	—	—	309	—	—
All Other Commercial	—	—	—	—	—	—
Residential						
First Liens	—	—	—	111	—	—
Home Equity	—	—	—	—	—	—
Junior Liens	—	—	—	—	—	—
Multifamily	—	—	—	—	—	—
All Other Residential	—	—	—	—	—	—
Consumer						
Motor Vehicle	—	—	—	—	—	—
All Other Consumer	—	—	—	—	—	—
TOTAL	\$ 9,635	\$ 9,435	\$ 34	\$ 11,269	\$	—\$ —

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	Unpaid Principal Balance	Recorded Investment	December 31, 2017		Interest Income Recognized	Cash Basis Interest Income Recognized
			Allowance for Loan Losses Allocation	Average Loan Investment		
(Dollar amounts in thousands)						
With no related allowance recorded:						
Commercial						
Commercial & Industrial	\$ 802	\$ 802	\$—	\$ 971	\$	—\$ —
Farmland	930	930	—	1,265	—	—
Non Farm, Non Residential	2,461	2,461	—	2,781	—	—
Agriculture	123	123	—	239	—	—
All Other Commercial	1,238	1,238	—	1,308	—	—
Residential						
First Liens	21	21	—	23	—	—
Home Equity	—	—	—	—	—	—
Junior Liens	—	—	—	—	—	—
Multifamily	—	—	—	—	—	—
All Other Residential	—	—	—	—	—	—
Consumer						
Motor Vehicle	—	—	—	—	—	—
All Other Consumer	—	—	—	—	—	—
With an allowance recorded:						
Commercial						
Commercial & Industrial	493	493	146	514	—	—
Farmland	3,035	3,035	268	669	—	—
Non Farm, Non Residential	—	—	—	131	—	—
Agriculture	738	537	205	279	—	—
All Other Commercial	—	—	—	—	—	—
Residential						
First Liens	442	442	6	483	—	—
Home Equity	—	—	—	—	—	—
Junior Liens	—	—	—	—	—	—
Multifamily	—	—	—	—	—	—
All Other Residential	—	—	—	—	—	—
Consumer						
Motor Vehicle	—	—	—	—	—	—
All Other Consumer	—	—	—	—	—	—
TOTAL	\$ 10,283	\$ 10,082	\$ 625	\$ 8,663	\$	—\$ —

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	Three Months Ended September 30, 2018			Nine Months Ended September 30, 2018		
	Average Interest Recorded	Interest Income	Cash Basis Interest Income	Average Interest Recorded	Interest Income	Cash Basis Interest Income
(Dollar amounts in thousands)						
With no related allowance recorded:						
Commercial						
Commercial & Industrial	\$662	\$	—\$	—\$725	\$	—\$
Farmland	2,007	—	—	1,468	—	—
Non Farm, Non Residential	1,165	—	—	1,803	—	—
Agriculture	6	—	—	61	—	—
All Other Commercial	1,156	—	—	1,187	—	—
Residential						
First Liens	4,188	—	—	3,110	—	—
Home Equity	—	—	—	—	—	—
Junior Liens	39	—	—	29	—	—
Multifamily	—	—	—	—	—	—
All Other Residential	—	—	—	—	—	—
Consumer						
Motor Vehicle	—	—	—	—	—	—
All Other Consumer	—	—	—	—	—	—
With an allowance recorded:						
Commercial						
Commercial & Industrial	323	—	—	405	—	—
Farmland	1,081	—	—	2,061	—	—
Non Farm, Non Residential	—	—	—	—	—	—
Agriculture	80	—	—	309	—	—
All Other Commercial	—	—	—	—	—	—
Residential						
First Liens	—	—	—	111	—	—
Home Equity	—	—	—	—	—	—
Junior Liens	—	—	—	—	—	—
Multifamily	—	—	—	—	—	—
All Other Residential	—	—	—	—	—	—
Consumer						
Motor Vehicle	—	—	—	—	—	—
All Other Consumer	—	—	—	—	—	—
TOTAL	\$10,707	\$	—\$	—\$11,269	\$	—\$

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	Three Months Ended September 30, 2017			Nine Months Ended September 30, 2017		
	Average Recorded	Interest Income	Cash Basis Interest Income	Average Recorded	Interest Income	Cash Basis Interest Income
(Dollar amounts in thousands)	Investment	Recognized	Recognized	Investment	Recognized	Recognized
With no related allowance recorded:						
Commercial						
Commercial & Industrial	\$891	\$	—\$	—\$1,013	\$	—\$
Farmland	2,285	—	—	1,349	—	—
Non Farm, Non Residential	3,218	—	—	2,861	—	—
Agriculture	107	—	—	268	—	—
All Other Commercial	1,297	—	—	1,325	—	—
Residential						
First Liens	23	—	—	24	—	—
Home Equity	—	—	—	—	—	—
Junior Liens	—	—	—	—	—	—
Multifamily	—	—	—	—	—	—
All Other Residential	—	—	—	—	—	—
Consumer						
Motor Vehicle	—	—	—	—	—	—
All Other Consumer	—	—	—	—	—	—
With an allowance recorded:						
Commercial						
Commercial & Industrial	508	—	—	519	—	—
Farmland	156	—	—	78	—	—
Non Farm, Non Residential	—	—	—	164	—	—
Agriculture	430	—	—	215	—	—
All Other Commercial	—	—	—	—	—	—
Residential						
First Liens	473	—	—	493	—	—
Home Equity	—	—	—	—	—	—
Junior Liens	—	—	—	—	—	—
Multifamily	—	—	—	—	—	—
All Other Residential	—	—	—	—	—	—
Consumer						
Motor Vehicle	—	—	—	—	—	—
All Other Consumer	—	—	—	—	—	—
TOTAL	\$9,388	\$	—\$	—\$8,309	\$	—\$

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

	September 30, 2018			
	Loans			
	Past			
	Due	Troubled	Nonaccrual	
	Over	Debt Restructured	Excluding	
	90 Day			
	Still			
(Dollar amounts in thousands)	Accruing	Accruing	Nonaccrual	TDR
Commercial				
Commercial & Industrial	\$41	\$1	\$ 202	\$ 1,096
Farmland	—	—	—	3,258
Non Farm, Non Residential	—	—	—	88
Agriculture	—	—	—	27
All Other Commercial	—	—	—	1,147
Residential				
First Liens	1,063	3,343	564	3,518
Home Equity	12	—	—	75
Junior Liens	18	57	—	68
Multifamily	—	—	—	—
All Other Residential	—	—	—	66
Consumer				
Motor Vehicle	259	2	—	179
All Other Consumer	—	187	475	513
TOTAL	\$1,393	\$3,590	\$ 1,241	\$ 10,035

	December 31, 2017			
	Loans			
	Past			
	Due	Troubled	Nonaccrual	
	Over	Debt Restructured	Excluding	
	90 Day			
	Still			
(Dollar amounts in thousands)	Accruing	Accruing	Nonaccrual	TDR
Commercial				
Commercial & Industrial	\$41	\$2	\$ 212	\$ 1,679
Farmland	19	—	—	4,141
Non Farm, Non Residential	—	56	2,440	172
Agriculture	—	—	—	707
All Other Commercial	—	—	—	1,236
Residential				
First Liens	1,011	3,105	575	3,972
Home Equity	8	—	—	249
Junior Liens	137	—	—	134
Multifamily	—	—	—	—
All Other Residential	—	—	—	90
Consumer				
Motor Vehicle	268	9	—	242
All Other Consumer	—	177	527	623

TOTAL \$1,484 \$3,349 \$ 3,754 \$ 13,245

There were \$131 thousand of loans covered by loss share agreements with the FDIC included in loans past due over 90 days still on accrual at September 30, 2018 and there were \$88 thousand at December 31, 2017. There were \$85 thousand of

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covered loans included in non-accrual loans at September 30, 2018 and there were \$62 thousand at December 31, 2017. There were no covered loans at September 30, 2018 or December 31, 2017 that were deemed impaired.

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

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

(Dollar amounts in thousands)	September 30, 2018					
	30-59 Days	60-89 Days	Greater than 90 days	Total	Current	Total
	Past Due	Past Due	Past Due	Past Due		
Commercial						
Commercial & Industrial	\$765	\$487	\$481	\$1,733	\$507,758	\$509,491
Farmland	—	8	3,198	3,206	103,902	107,108
Non Farm, Non Residential	20	31	26	77	188,673	188,750
Agriculture	—	—	11	11	142,700	142,711
All Other Commercial	4	—	—	4	210,233	210,237
Residential						
First Liens	528	446	1,939	2,913	236,246	239,159
Home Equity	203	80	81	364	37,449	37,813
Junior Liens	138	53	18	209	47,866	48,075
Multifamily	—	—	—	—	107,179	107,179
All Other Residential	—	—	—	—	12,481	12,481
Consumer						
Motor Vehicle	5,092	861	299	6,252	313,132	319,384
All Other Consumer	106	10	3	119	27,080	27,199
TOTAL	\$6,856	\$1,976	\$6,056	\$14,888	\$1,934,699	\$1,949,587

(Dollar amounts in thousands)	December 31, 2017					
	30-59 Days	60-89 Days	Greater than 90 days	Total	Current	Total
	Past Due	Past Due	Past Due	Past Due		
Commercial						
Commercial & Industrial	\$372	\$80	\$640	\$1,092	\$474,709	\$475,801
Farmland	341	—	3,671	4,012	104,457	108,469
Non Farm, Non Residential	141	—	—	141	200,804	200,945
Agriculture	141	—	561	702	152,388	153,090
All Other Commercial	—	—	—	—	207,875	207,875
Residential						
First Liens	5,467	1,317	1,434	8,218	247,029	255,247
Home Equity	310	46	8	364	35,752	36,116
Junior Liens	274	106	194	574	41,688	42,262
Multifamily	—	—	—	—	90,141	90,141
All Other Residential	300	—	12	312	13,329	13,641
Consumer						

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Motor Vehicle	4,770	697	294	5,761	298,211	303,972
All Other Consumer	107	22	—	129	25,334	25,463
TOTAL	\$12,223	\$2,268	\$6,814	\$21,305	\$1,891,717	\$1,913,022

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During the three and nine months ended September 30, 2018 and 2017, the terms of certain loans were modified as troubled debt restructurings (TDRs). The following tables present the activity for TDRs.

	2018			
(Dollar amounts in thousands)	Commercial	Residential	Consumer	Total
July 1,	\$ 2,577	\$3,607	\$ 635	\$6,819
Added	—	538	94	632
Charged Off	—	—	(7)	(7)
Payments	(2,374)	(165)	(58)	(2,597)
September 30,	\$ 203	\$3,980	\$ 664	\$4,847

	2018			
(Dollar amounts in thousands)	Commercial	Residential	Consumer	Total
January 1,	\$ 2,709	\$3,611	\$ 714	\$7,034
Added	—	751	237	988
Charged Off	—	(16)	(83)	(99)
Payments	(2,506)	(366)	(204)	(3,076)
September 30,	\$ 203	\$3,980	\$ 664	\$4,847

	2017			
(Dollar amounts in thousands)	Commercial	Residential	Consumer	Total
July 1,	3,061	4,198	725	7,984
Added	—	—	42	42
Charged Off	—	(155)	(17)	(172)
Payments	(153)	(222)	(55)	(430)
September 30,	2,908	3,821	695	7,424

	2017			
(Dollar amounts in thousands)	Commercial	Residential	Consumer	Total
January 1,	3,386	4,447	732	8,565
Added	—	227	251	478
Charged Off	—	(195)	(88)	(283)
Payments	(478)	(658)	(200)	(1,336)
September 30,	2,908	3,821	695	7,424

Modification of the terms of such loans typically include one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; or a permanent reduction of the recorded investment in the loan. No modification in 2018 or 2017 resulted in the permanent reduction of the recorded investment in the loan.

Modifications involving a reduction of the stated interest rate of the loan were for periods ranging from twelve months to five years. Modifications involving an extension of the maturity date were for periods ranging from twelve months to ten years. Troubled debt restructurings during the three and nine months ended September 30, 2018 and 2017 did not result in any material charge-offs or additional provision expense.

The Corporation has no allocations of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of September 30, 2018 and 2017. The Corporation has not committed to lend additional amounts as of September 30, 2018 and 2017 to customers with outstanding loans that are classified as troubled debt restructurings. None of the charge-offs during the three and nine months ended September 30, 2018 and 2017 were of restructurings that had occurred in the previous 12 months.

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Credit Quality Indicators:

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

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

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

Doubtful: Loans classified as doubtful have all the weaknesses inherent in those graded substandard, with the added characteristic that the severity of the weaknesses makes collection or liquidation in full highly questionable or improbable based upon currently existing facts, conditions, and values.

Furthermore, non-homogeneous loans which were not individually analyzed, but are 90+ days past due or on non-accrual are classified as substandard. Loans included in homogeneous pools, such as residential or consumer may be classified as substandard due to 90+ days delinquency, non-accrual status, bankruptcy, or loan restructuring.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans. Loans listed as not rated are either those with an outstanding balance less than \$100 thousand or are included in groups of homogeneous loans. As of September 30, 2018 and December 31, 2017, and based on the most recent analysis performed, the risk category of loans by class of loans are as follows:

	September 30, 2018					
(Dollar amounts in thousands)	Pass	Special Mention	Substandard	Doubtful	Not Rated	Total
Commercial						
Commercial & Industrial	\$462,286	\$21,079	\$ 16,145	\$ —	\$8,327	\$507,837
Farmland	88,960	7,655	8,427	—	20	105,062
Non Farm, Non Residential	172,165	5,620	10,531	—	—	188,316
Agriculture	113,536	9,823	16,405	—	456	140,220
All Other Commercial	200,398	43	6,923	—	1,737	209,101
Residential						
First Liens	44,443	971	3,935	—	188,857	238,206
Home Equity	673	—	120	—	36,952	37,745
Junior Liens	2,041	76	171	76	45,598	47,962
Multifamily	106,891	—	—	—	19	106,910
All Other Residential	—	—	15	—	12,426	12,441
Consumer						
Motor Vehicle	—	—	674	—	317,387	318,061
All Other Consumer	—	—	43	—	27,028	27,071

TOTAL	\$1,191,393	\$45,267	\$ 63,389	\$ 76	\$638,807	\$1,938,932
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(Dollar amounts in thousands)	December 31, 2017					Total
	Pass	Special Mention	Substandard	Doubtful	Not Rated	
Commercial						
Commercial & Industrial	\$430,015	\$19,889	\$18,611	\$38	\$5,947	\$474,500
Farmland	88,338	10,782	7,466	—	10	106,596
Non Farm, Non Residential	179,181	7,689	13,632	—	—	200,502
Agriculture	111,724	17,482	21,388	—	342	150,936
All Other Commercial	194,170	2,723	7,459	—	2,604	206,956
Residential						
First Liens	45,320	750	3,980	5	204,329	254,384
Home Equity	319	—	64	—	35,653	36,036
Junior Liens	1,882	76	342	100	39,755	42,155
Multifamily	89,936	—	—	—	36	89,972
All Other Residential	—	—	67	—	13,529	13,596
Consumer						
Motor Vehicle	—	—	731	—	301,900	302,631
All Other Consumer	—	—	44	—	25,301	25,345
TOTAL	\$1,140,885	\$59,391	\$73,784	\$143	\$629,406	\$1,903,609

3. Securities

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

(Dollar amounts in thousands)	September 30, 2018			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Government agencies	\$13,042	\$2	\$(571)	\$12,473
Mortgage Backed Securities - residential	189,999	798	(6,146)	184,651
Collateralized mortgage obligations	368,486	26	(13,965)	354,547
State and municipal obligations	231,565	1,764	(2,730)	230,599
Collateralized debt obligations	179	3,244	—	3,423
TOTAL	\$803,271	\$5,834	\$(23,412)	\$785,693
(Dollar amounts in thousands)	December 31, 2017			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Government agencies	\$13,989	\$24	\$(318)	\$13,695
Mortgage Backed Securities-residential	215,079	2,071	(1,812)	215,338
Mortgage Backed Securities-commercial	1	—	—	1
Collateralized mortgage obligations	346,005	370	(6,705)	339,670
State and municipal obligations	227,651	4,671	(700)	231,622
Collateralized debt obligations	8,644	5,961	—	14,605
TOTAL	\$811,369	\$13,097	\$(9,535)	\$814,931

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Contractual maturities of debt securities at September 30, 2018 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)	Available-for-Sale	
	Amortized Cost	Fair Value
Due in one year or less	\$3,965	\$3,961
Due after one but within five years	32,844	33,151
Due after five but within ten years	74,009	74,647
Due after ten years	133,968	134,736
Mortgage-backed securities and collateralized mortgage obligations	244,786	246,495
TOTAL	558,485	539,198
	\$803,271	\$785,693

There were \$3 thousand and \$5 thousand in gross gains and no losses from investment sales/calls realized by the Corporation for the three and nine months ended September 30, 2018. For the three and nine months ended September 30, 2017 there were \$27 thousand and \$44 thousand in gross gains and no losses on sales of investment securities.

The following tables show the securities' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in continuous unrealized loss position, at September 30, 2018 and December 31, 2017.

(Dollar amounts in thousands)	September 30, 2018					
	Less Than 12 Months		More Than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government agencies	\$—	\$—	\$11,782	\$(571)	\$11,782	\$(571)
Mortgage Backed Securities - Residential	\$104,404	\$(3,323)	\$52,106	\$(2,823)	\$156,510	\$(6,146)
Collateralized mortgage obligations	191,204	(4,317)	158,396	(9,648)	349,600	(13,965)
State and municipal obligations	96,736	(1,627)	21,574	(1,103)	118,310	(2,730)
Total temporarily impaired securities	\$392,344	\$(9,267)	\$243,858	\$(14,145)	\$636,202	\$(23,412)

(Dollar amounts in thousands)	December 31, 2017					
	Less Than 12 Months		More Than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
US Government entity mortgage-backed securities	\$9,321	\$(86)	\$3,538	\$(232)	\$12,859	\$(318)
Mortgage Backed Securities - Residential	\$79,918	\$(425)	\$53,815	\$(1,387)	\$133,733	\$(1,812)
Collateralized mortgage obligations	150,182	(1,418)	146,750	(5,287)	296,932	(6,705)
State and municipal obligations	27,347	(183)	18,660	(517)	46,007	(700)
Total temporarily impaired securities	\$266,768	\$(2,112)	\$222,763	\$(7,423)	\$489,531	\$(9,535)

Management evaluates securities for other-than-temporary impairment ("OTTI") at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. The investment securities portfolio is evaluated for OTTI by segregating the portfolio into two general segments and applying the appropriate OTTI model. Investment securities are generally evaluated for OTTI under FASB ASC 320, Investments - Debt and Equity

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

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When OTTI occurs under either model, the amount of the OTTI recognized in earnings depends on whether an entity intends to sell the security or it is more likely than not it will be required to sell the security before recovery of its amortized cost basis, less any current-period credit loss. If an entity intends to sell or it is more likely than not it will be required to sell the security before recovery of its amortized cost basis, less any current-period credit loss, the OTTI shall be recognized in earnings equal to the entire difference between the investment's amortized cost basis and its fair value at the balance sheet date. If an entity does not intend to sell the security and it is not more likely than not that the entity will be required to sell the security before recovery of its amortized cost basis less any current-period loss, the OTTI shall be separated into the amount representing the credit loss and the amount related to all other factors. The amount of the total OTTI related to the credit loss is determined based on the present value of cash flows expected to be collected and is recognized in earnings. The amount of the total OTTI related to other factors is recognized in other comprehensive income, net of applicable taxes. The previous amortized cost basis less the OTTI recognized in earnings becomes the new amortized cost basis of the investment.

Gross unrealized losses on investment securities were \$23.4 million as of September 30, 2018 and \$9.5 million as of December 31, 2017. A majority of these losses represent negative adjustments to market value relative to the interest rate environment reflecting the increase in market rates and not losses related to the creditworthiness of the issuer. Based upon our review of the issuers, we do not believe these investments to be other than temporarily impaired. Management does not intend to sell these securities and it is not more likely than not that we will be required to sell them before their anticipated recovery.

There were three collateralized debt obligations securities with previously recorded OTTI but there was no additional OTTI recorded in 2018 or 2017. During the quarter ended June 30, 2018, one of the obligations was called, resulting in the elimination of the OTTI associated with that obligation. A recovery of previously recorded OTTI of \$4.2 million was received and recognized in non-interest income for the period. In addition the Corporation received \$2.4 million of interest income associated with the call. During the quarter ended March 31, 2017, one of the obligations was partially called, resulting in the elimination of the OTTI associated with that obligation. A cash recovery of \$3.1 million was received and recognized in non-interest income for the period as the book value of the security was previously written down to zero.

Management has consistently used Standard & Poors pricing to value these investments. There are a number of other pricing sources available to determine fair value for these investments. These sources utilize a variety of methods to determine fair value. The result is a wide range of estimates of fair value for these securities. The Standard & Poors pricing was 85.57 while Moody Investor Service pricing was 21.23, with others falling somewhere in between. We recognize that the Standard & Poors pricing utilized is an estimate, but have been consistent in using this source and its estimate of fair value.

The table below presents a rollforward of the credit losses recognized in earnings for the three and nine month periods ended September 30, 2018 and 2017:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollar amounts in thousands)	2018	2017	2018	2017
Beginning balance	\$2,974	\$7,132	\$7,132	\$13,974
Increases to the amount related to the credit				
Loss for which other-than-temporary was previously recognized	—	—	—	—
Reductions for increases in cash flows collected	—	—	—	—
Reductions for securities called during the period	—	—	(4,158)	(6,842)
Ending balance	\$2,974	\$7,132	\$2,974	\$7,132

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.

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Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

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

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

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

	September 30, 2018		
	Fair Value Measurements		
	Using Significant		
	Unobservable Inputs (Level 3)		
(Dollar amounts in thousands)	Level 1	Level 2	Level 3
			Total
U.S. Government agencies	\$-\$12,473	\$—	\$12,473
Mortgage Backed Securities-residential	—184,651	—	184,651
Collateralized mortgage obligations	—354,547	—	354,547
State and municipal	—227,464	3,135	230,599
Collateralized debt obligations	—	3,423	3,423
TOTAL	\$-\$779,135	\$6,558	\$785,693
Derivative Assets	687		
Derivative Liabilities	(687)	
	December 31, 2017		
	Fair Value Measurements Using		
	Significant		
	Unobservable Inputs (Level 3)		
(Dollar amounts in thousands)	Level 1	Level 2	Level 3
			Total
U.S. Government agencies	\$-\$13,695	\$—	\$13,695
Mortgage Backed Securities-residential	—215,338	—	215,338
Mortgage Backed Securities-commercial	—1	—	1
Collateralized mortgage obligations	—339,670	—	339,670
State and municipal	—227,942	3,680	231,622
Collateralized debt obligations	—	14,605	14,605
TOTAL	\$-\$796,646	\$18,285	\$814,931

Derivative Assets	298
Derivative Liabilities	(298)

There were no transfers between Level 1 and Level 2 during 2018 and 2017.

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The tables below presents a reconciliation and income statement classification of gains and losses for all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three and nine months ended September&