

FIRST FINANCIAL CORP /IN/  
Form 10-Q  
November 06, 2013  
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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, 2013

Commission File Number 0-16759

FIRST FINANCIAL CORPORATION  
(Exact name of registrant as specified in its charter)  
INDIANA  
(State or other jurisdiction  
incorporation or organization)

35-1546989  
(I.R.S. Employer  
Identification No.)

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

47807  
(Zip Code)

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

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

Yes  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   
Non-accelerated filer  (Do not check if a smaller reporting company)

Accelerated filer   
Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No .

As of November 5, 2013, the registrant had outstanding 13,307,498 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, 2013 (unaudited)	December 31, 2012
<b>ASSETS</b>		
Cash and due from banks	\$80,899	\$87,230
Federal funds sold	3,420	20,800
Securities available-for-sale	872,675	691,000
Loans:		
Commercial	1,057,823	1,088,144
Residential	482,477	496,237
Consumer	269,282	268,507
	1,809,582	1,852,888
Less:		
Unearned Income	(977	) (952
Allowance for loan losses	(22,004	) (21,958
	1,786,601	1,829,978
Restricted Stock	21,050	21,292
Accrued interest receivable	11,767	12,024
Premises and equipment, net	51,875	47,308
Bank-owned life insurance	78,679	77,295
Goodwill	39,489	37,612
Other intangible assets	5,253	3,893
Other real estate owned	9,249	7,722
FDIC Indemnification Asset	1,171	2,632
Other assets	55,341	56,622
<b>TOTAL ASSETS</b>	<b>\$3,017,469</b>	<b>\$2,895,408</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Deposits:		
Non-interest-bearing	\$491,826	\$465,954
Interest-bearing:		
Certificates of deposit of \$100 or more	187,305	213,610
Other interest-bearing deposits	1,807,897	1,596,570
	2,487,028	2,276,134
Short-term borrowings	27,929	40,551
Other borrowings	58,362	119,705
Other liabilities	69,073	86,896
<b>TOTAL LIABILITIES</b>	<b>2,642,392</b>	<b>2,523,286</b>
Shareholders' equity		
Common stock, \$.125 stated value per share;		
Authorized shares-40,000,000		
Issued shares-14,516,113 in 2013 and 14,490,609 in 2012		
Outstanding shares-13,307,498 in 2013 and 13,287,348 in 2012	1,810	1,808

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Additional paid-in capital	70,537	69,989	
Retained earnings	354,565	338,342	
Accumulated other comprehensive income (loss)	(21,128	) (7,472	)
Less: Treasury shares at cost-1,208,615 in 2013 and 1,203,261 in 2012	(30,707	) (30,545	)
TOTAL SHAREHOLDERS' EQUITY	375,077	372,122	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$3,017,469	\$2,895,408	
See accompanying notes.			

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## FIRST FINANCIAL CORPORATION

## CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (LOSS)

(Dollar amounts in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
<b>INTEREST INCOME:</b>				
Loans, including related fees	\$22,510	\$24,725	\$68,540	\$75,149
Securities:				
Taxable	5,038	3,308	11,732	10,339
Tax-exempt	1,750	1,827	5,281	5,442
Other	421	568	1,413	1,781
<b>TOTAL INTEREST INCOME</b>	<b>29,719</b>	<b>30,428</b>	<b>86,966</b>	<b>92,711</b>
<b>INTEREST EXPENSE:</b>				
Deposits	1,349	1,881	4,625	6,714
Short-term borrowings	23	33	62	116
Other borrowings	549	1,108	2,570	3,648
<b>TOTAL INTEREST EXPENSE</b>	<b>1,921</b>	<b>3,022</b>	<b>7,257</b>	<b>10,478</b>
<b>NET INTEREST INCOME</b>	<b>27,798</b>	<b>27,406</b>	<b>79,709</b>	<b>82,233</b>
Provision for loan losses	495	2,559	6,476	7,304
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>	<b>27,303</b>	<b>24,847</b>	<b>73,233</b>	<b>74,929</b>
<b>NON-INTEREST INCOME:</b>				
Trust and financial services	1,402	1,413	4,331	4,332
Service charges and fees on deposit accounts	2,693	2,560	7,341	7,166
Other service charges and fees	2,818	2,506	8,044	7,237
Securities gains/(losses), net	—	17	7	677
Total impairment losses	—	—	—	(11)
Loss recognized in other comprehensive loss	—	—	—	—
Net impairment loss recognized in earnings	—	—	—	(11)
Insurance commissions	1,896	1,736	5,800	5,426
Gain on sales of mortgage loans	583	1,253	2,489	2,970
Other	245	203	1,165	1,159
<b>TOTAL NON-INTEREST INCOME</b>	<b>9,637</b>	<b>9,688</b>	<b>29,177</b>	<b>28,956</b>
<b>NON-INTEREST EXPENSE:</b>				
Salaries and employee benefits	13,773	13,695	41,082	42,005
Occupancy expense	1,544	1,465	4,642	4,370
Equipment expense	1,686	1,335	4,724	4,016
FDIC Expense	500	494	1,559	1,449
Other	7,316	5,975	18,394	17,646
<b>TOTAL NON-INTEREST EXPENSE</b>	<b>24,819</b>	<b>22,964</b>	<b>70,401</b>	<b>69,486</b>
<b>INCOME BEFORE INCOME TAXES</b>	<b>12,121</b>	<b>11,571</b>	<b>32,009</b>	<b>34,399</b>
Provision for income taxes	3,649	3,480	9,398	10,160
<b>NET INCOME</b>	<b>8,472</b>	<b>8,091</b>	<b>22,611</b>	<b>24,239</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>				
Change in unrealized gains/losses on securities, net of reclassifications	(3,790)	) 3,123	(24,660)	) 3,763
Tax effect	1,468	(1,249)	) 10,112	(1,505)

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	(2,322	) 1,874	(14,548	) 2,258
Change in funded status of post retirement benefits	566	645	1,486	1,932
Tax effect	(226	) (258	) (594	) (773
	340	387	892	1,159
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	(1,982	) 2,261	(13,656	) 3,417
COMPREHENSIVE INCOME (LOSS)	\$6,490	\$10,352	\$8,955	\$27,656
PER SHARE DATA				
Basic and Diluted Earnings per Share	\$0.64	\$0.61	\$1.70	\$1.83
Dividends per Share	\$—	\$—	\$0.48	\$0.47
Weighted average number of shares outstanding (in thousands)	13,307	13,238	13,305	13,233
See accompanying notes.				

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CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Three Months Ended

September 30, 2013, and 2012

(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, 2012	\$1,807	\$69,571	\$328,056	\$(9,338 )	\$(31,809 )	\$358,287
Net income	—	—	8,091	—	—	8,091
Other comprehensive income	—	—	—	2,261	—	2,261
Omnibus Equity Incentive Plan	1	121	—	—	—	122
Balance, September 30, 2012	\$1,808	\$69,692	\$336,147	\$(7,077 )	\$(31,809 )	\$368,761
Balance, July 1, 2013	\$1,809	\$70,354	\$346,093	\$(19,146 )	\$(30,707 )	\$368,403
Net income	—	—	8,472	—	—	8,472
Other comprehensive income (loss)	—	—	—	(1,982 )	—	(1,982 )
Omnibus Equity Incentive Plan	1	183	—	—	—	184
Balance, September 30, 2013	\$1,810	\$70,537	\$354,565	\$(21,128 )	\$(30,707 )	\$375,077
See accompanying notes.						



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CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Nine Months Ended

September 30, 2013, and 2012

(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	—	—	24,239	—	—	24,239
Other comprehensive income	—	—	—	3,417	—	3,417
Omnibus Equity Incentive Plan	2	364	—	—	—	366
Cash Dividends, \$.47 per share	—	—	(6,222 )	—	—	(6,222 )
Balance, September 30, 2012	\$1,808	\$69,692	\$336,147	\$(7,077 )	\$(31,809 )	\$368,761
Balance, January 1, 2013	\$1,808	\$69,989	\$338,342	\$(7,472 )	\$(30,545 )	\$372,122
Net income	—	—	22,611	—	—	22,611
Other comprehensive income (loss)	—	—	—	(13,656 )	—	(13,656 )
Treasury stock purchase (5,354 shares)	—	—	—	—	(162 )	(162 )
Omnibus Equity Incentive Plan	2	548	—	—	—	550
Cash Dividends, \$.48 per share	—	—	(6,388 )	—	—	(6,388 )
Balance, September 30, 2013	\$1,810	\$70,537	\$354,565	\$(21,128 )	\$(30,707 )	\$375,077
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,	
	2013	2012
	(Unaudited)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net Income	\$22,611	\$24,239
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization (accretion) of premiums and discounts on investments	2,092	2,209
Provision for loan losses	6,476	7,304
Securities (gains) losses	(7	) (677
Securities impairment loss	—	11
(Gain) loss on sale of other real estate	109	46
Restricted stock compensation	550	366
Depreciation and amortization	4,066	3,741
Other, net	1,488	2,345
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>37,385</b>	<b>39,584</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sales of securities available-for-sale	5,052	9,015
Redemption of restricted stock	250	1,172
Purchases of restricted stock	(8	) (186
Purchases of customer list	—	(114
Cash received (disbursed) from purchase of branches	177,251	—
Redemption of bank owned life insurance	—	7,319
Purchase of bank owned life insurance	—	(1,551
Calls, maturities and principal reductions on securities available-for-sale	126,395	99,465
Purchases of securities available-for-sale	(339,872	) (96,953
Loans made to customers, net of repayment	36,105	24,248
Proceeds from sales of other real estate owned	1,251	3,210
Net change in federal funds sold	17,380	(44,048
Additions to premises and equipment	(1,850	) (7,318
<b>NET CASH FROM INVESTING ACTIVITIES</b>	<b>21,954</b>	<b>(5,741</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net change in deposits	20,978	(15,945
Net change in short-term borrowings	(12,622	) (56,025
Proceeds from other borrowings	135,000	—
Maturities of other borrowings	(196,097	) (20,090
Purchase of treasury stock	(162	) —
Dividends paid	(12,767	) (12,425
<b>NET CASH FROM FINANCING ACTIVITIES</b>	<b>(65,670</b>	<b>) (104,485</b>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>(6,331</b>	<b>) (70,642</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>87,230</b>	<b>134,280</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$80,899</b>	<b>\$63,638</b>
See accompanying notes.		



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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The accompanying September 30, 2013 and 2012 consolidated financial statements are unaudited. The December 31, 2012 consolidated financial statements are as reported in the First Financial Corporation (the "Corporation") 2012 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, 2012.

## 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 2013 and 2012, 30,219 and 39,643 shares were awarded, respectively. These shares had a grant date value of \$0.9 million and \$1.4 million for 2013 and 2012, 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: (Dollar amounts in thousands)	September 30, 2013				
	Commercial	Residential	Consumer	Unallocated	Total
Beginning balance	\$14,531	\$1,592	\$3,637	\$2,373	\$22,133
Provision for loan losses*	(486)	(266)	504	548	300
Loans charged -off	(388)	(284)	(840)	—	(1,512)
Recoveries	361	398	324	—	1,083
Ending Balance	\$14,018	\$1,440	\$3,625	\$2,921	\$22,004

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

Allowance for Loan Losses: (Dollar amounts in thousands)	September 30, 2012				
	Commercial	Residential	Consumer	Unallocated	Total
Beginning balance	\$13,190	\$2,124	\$3,744	\$1,034	\$20,092
Provision for loan losses*	765	1,594	196	85	2,640
Loans charged -off	(715)	(381)	(779)	—	(1,875)
Recoveries	167	36	397	—	600
Ending Balance	\$13,407	\$3,373	\$3,558	\$1,119	\$21,457

\* Provision before decrease of \$81 thousand in 2012 for increase in FDIC indemnification asset

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

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

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

Allowance for Loan Losses: (Dollar amounts in thousands)	September 30, 2012				
	Commercial	Residential	Consumer	Unallocated	Total
Beginning balance	\$12,119	\$2,728	\$3,889	\$505	\$19,241
Provision for loan losses*	3,642	2,859	1,185	614	8,300
Loans charged -off	(2,917)	(2,289)	(2,635)	—	(7,841)
Recoveries	563	75	1,119	—	1,757
Ending Balance	\$13,407	\$3,373	\$3,558	\$1,119	\$21,457

\* Provision before decrease of \$1.0 million in 2012 for increase in FDIC indemnification asset

The following table presents the allocation of the allowance for loan losses and the recorded investment in loans by portfolio segment and based on the impairment method at September 30, 2013 and December 31, 2012.

Allowance for Loan Losses (Dollar amounts in thousands)	September 30, 2013				
	Commercial	Residential	Consumer	Unallocated	Total
Individually evaluated for impairment	\$5,510	\$—	\$—	\$—	\$5,510
Collectively evaluated for impairment	7,698	1,254	3,625	2,921	15,498
Acquired with deteriorated credit quality	810	186	—	—	996
Ending Balance	\$14,018	\$1,440	\$3,625	\$2,921	\$22,004

Loans: (Dollar amounts in thousands)	September 30, 2013			
	Commercial	Residential	Consumer	Total
Individually evaluated for impairment	\$24,741	\$226	\$—	\$24,967
Collectively evaluated for impairment	1,028,446	481,064	270,518	1,780,028
Acquired with deteriorated credit quality	10,142	2,736	—	12,878
Ending Balance	\$1,063,329	\$484,026	\$270,518	\$1,817,873

Allowance for Loan Losses: (Dollar amounts in thousands)	December 31, 2012				
	Commercial	Residential	Consumer	Unallocated	Total
Individually evaluated for impairment	3,453	3,920	—	—	7,373
Collectively evaluated for impairment	7,286	1,506	3,879	1,666	14,337
Acquired with deteriorated credit quality	248	—	—	—	248
Ending Balance	\$10,987	\$5,426	\$3,879	\$1,666	\$21,958

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Loans (Dollar amounts in thousands)	December 31, 2012			
	Commercial	Residential	Consumer	Total
Individually evaluated for impairment	23,721	6,973	—	30,694
Collectively evaluated for impairment	1,056,861	487,486	269,882	1,814,229
Acquired with deteriorated credit quality	13,582	3,421	6	17,009
Ending Balance	\$1,094,164	\$497,880	\$269,888	\$1,861,932

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

(Dollar amounts in thousands)	September 30, 2013					
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
With no related allowance recorded:						
Commercial						
Commercial & Industrial	\$3,725	\$3,527	\$—	\$1,464	\$—	\$—
Farmland	—	—	—	—	—	—
Non Farm, Non Residential Agriculture	24	24	—	6	—	—
All Other Commercial	—	—	—	—	—	—
Residential						
First Liens	—	—	—	9	—	—
Home Equity	—	—	—	—	—	—
Junior Liens	—	—	—	—	—	—
Multifamily	—	—	—	—	—	—
All Other Residential	—	—	—	—	—	—
Consumer						
Motor Vehicle	—	—	—	—	—	—
All Other Consumer	—	—	—	—	—	—
With an allowance recorded:						
Commercial						
Commercial & Industrial	10,789	10,789	3,353	14,131	—	—
Farmland	—	—	—	446	—	—
Non Farm, Non Residential Agriculture	8,063	7,997	1,361	8,100	—	—
All Other Commercial	4,107	4,107	896	3,458	—	—
Residential						
First Liens	38	38	—	646	—	—
Home Equity	—	—	—	—	—	—
Junior Liens	—	—	—	—	—	—
Multifamily	—	—	—	2,770	—	—
All Other Residential	—	—	—	—	—	—
Consumer						
Motor Vehicle	—	—	—	—	—	—
All Other Consumer	—	—	—	—	—	—
TOTAL	\$26,746	\$26,482	\$5,610	\$31,030	\$—	\$—





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