

FIRST FINANCIAL CORP /IN/
Form 10-Q
August 02, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For The Quarterly Period Ended June 30, 2017

Commission File Number 0-16759

FIRST FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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

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

Yes 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 .

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

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Part I – Financial Information

Item 1. Financial Statements

FIRST FINANCIAL CORPORATION

CONSOLIDATED BALANCE SHEETS

(Dollar amounts in thousands, except per share data)

	June 30, 2017 (unaudited)	December 31, 2016
ASSETS		
Cash and due from banks	\$55,379	\$ 75,012
Federal funds sold	—	6,952
Securities available-for-sale	851,577	853,725
Loans:		
Commercial	1,107,658	1,106,182
Residential	429,827	423,911
Consumer	316,542	305,881
	1,854,027	1,835,974
(Less) plus:		
Net deferred loan costs	3,003	3,206
Allowance for loan losses	(19,680)	(18,773)
	1,837,350	1,820,407
Restricted stock	10,369	10,359
Accrued interest receivable	11,564	12,311
Premises and equipment, net	48,296	49,240
Bank-owned life insurance	84,343	83,737
Goodwill	34,355	34,355
Other intangible assets	1,857	2,109
Other real estate owned	2,384	2,531
Other assets	37,214	37,789
TOTAL ASSETS	\$2,974,688	\$ 2,988,527
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest-bearing	\$415,945	\$ 564,092
Interest-bearing:		
Certificates of deposit exceeding the FDIC insurance limits	42,820	43,759
Other interest-bearing deposits	1,968,958	1,820,675
	2,427,723	2,428,526
Short-term borrowings	51,880	80,989
FHLB advances	132	132
Other liabilities	60,499	64,485
TOTAL LIABILITIES	2,540,234	2,574,132
Shareholders' equity		
Common stock, \$.125 stated value per share;		
Authorized shares-40,000,000		
Issued shares-14,595,320 in 2017 and 14,578,758 in 2016		
Outstanding shares-12,223,750 in 2017 and 12,216,712 in 2016	1,821	1,820
Additional paid-in capital	74,877	74,525

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

See accompanying notes.

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CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(Dollar amounts in thousands, except per share data)

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

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

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CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Three Months Ended

June 30, 2017, and 2016

(Dollar amounts in thousands, except per share data)

(Unaudited)

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

See accompanying notes.

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CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Six Months Ended

June 30, 2017, and 2016

(Dollar amounts in thousands, except per share data)

(Unaudited)

	Common Stock	Additional Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Treasury Stock	Total
Balance, January 1, 2016	\$ 1,817	\$ 73,396	\$ 395,633	\$ (9,401)	\$ (51,129)	\$ 410,316
Net income	—	—	21,907	—	—	21,907
Other comprehensive income	—	—	—	5,908	—	5,908
Omnibus Equity Incentive Plan	1	341	—	—	—	342
Treasury shares purchased (567,780 shares)	—	—	—	—	(19,132)	(19,132)
Cash dividends, \$.49 per share	—	—	(6,117)	—	—	(6,117)
Balance, June 30, 2016	\$ 1,818	\$ 73,737	\$ 411,423	\$ (3,493)	\$ (70,261)	\$ 413,224
Balance, January 1, 2017	\$ 1,820	\$ 74,525	\$ 421,826	\$ (14,164)	\$ (69,612)	\$ 414,395
Net income	—	—	17,721	—	—	17,721
Other comprehensive income	—	—	—	8,600	—	8,600
Omnibus Equity Incentive Plan	1	352	—	—	—	353
Treasury shares purchased (9,524 shares)	—	—	—	—	(503)	(503)
Cash dividends, \$.49 per share	—	—	(6,112)	—	—	(6,112)
Balance, June 30, 2017	\$ 1,821	\$ 74,877	\$ 433,435	\$ (5,564)	\$ (70,115)	\$ 434,454
See accompanying notes.						

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The accompanying June 30, 2017 and 2016 consolidated financial statements are unaudited. The December 31, 2016 consolidated financial statements are as reported in the First Financial Corporation (the "Corporation") 2016 annual report. The information presented does not include all information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. The following notes should be read together with notes to the consolidated financial statements included in the 10-K filed with the Securities and Exchange Commission for the fiscal year ended December 31, 2016.

1. Significant Accounting Policies

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

The Omnibus Equity Incentive Plan is a long-term incentive plan that was designed to align the interests of participants with the interests of shareholders. Under the plan, awards may be made based on certain performance measures. The grants are made in restricted stock units that are subject to a vesting schedule. These shares vest over 3 years in increments of 33%, 33%, and 34% respectively. At the six months ended 2017 and 2016, 16,562 and 20,943 shares were awarded, respectively. These shares had a grant date value of \$773 thousand and \$677 thousand for 2017 and 2016, vest over three years and their grant is not subject to future performance measures. Outstanding shares are increased at the award date for the total shares awarded.

2. Allowance for Loan Losses

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

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

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

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

Allowance for Loan Losses: June 30, 2017

Beginning balance	\$9,731	\$1,553	\$5,767	\$1,722	\$18,773
Provision for loan losses	403	(180)	2,410	3	2,636
Loans charged -off	(778)	(464)	(3,122)	—	(4,364)
Recoveries	867	605	1,163	—	2,635
Ending Balance	\$10,223	\$1,514	\$6,218	\$1,725	\$19,680

Allowance for Loan Losses: June 30, 2016

Beginning balance	\$11,482	\$1,834	\$4,945	\$1,685	\$19,946
Provision for loan losses	(1,091)	103	1,536	722	1,270
Loans charged -off	(822)	(471)	(2,189)	—	(3,482)
Recoveries	675	129	966	—	1,770
Ending Balance	\$10,244	\$1,595	\$5,258	\$2,407	\$19,504

The following table presents the allocation of the allowance for loan losses and the recorded investment in loans by portfolio segment and based on the impairment method at June 30, 2017 and December 31, 2016.

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

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

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

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

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

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

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

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	Unpaid Principal	Recorded Investment	December 31, 2016 Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Income Recognized
(Dollar amounts in thousands)						
With no related allowance recorded:						
Commercial						
Commercial & Industrial						