

FIRST FINANCIAL CORP /IN/  
Form 10-Q  
November 09, 2011  
[Table of Contents](#)

**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, 2011**

**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)

Edgar Filing: FIRST FINANCIAL CORP /IN/ - Form 10-Q

(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

Accelerated filer

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

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 8, 2011, the registrant had outstanding 13,151,630 shares of common stock, without par value.

---

Table of Contents

FIRST FINANCIAL CORPORATION

FORM 10-Q

INDEX

	<b>Page No.</b>
<u>PART I. Financial Information</u>	
<u>Item 1. Financial Statements:</u>	
<u>Consolidated Balance Sheets</u>	3
<u>Consolidated Statements of Income</u>	4
<u>Consolidated Statements of Shareholders' Equity</u>	5
<u>Consolidated Statements of Cash Flows</u>	7
<u>Notes to Consolidated Financial Statements</u>	8
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	24
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	24
<u>Item 4. Controls and Procedures</u>	27
<u>PART II. Other Information:</u>	
<u>Item 1. Legal Proceedings</u>	28
<u>Item 1A. Risk Factors</u>	28
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	28
<u>Item 3. Defaults upon Senior Securities</u>	28
<u>Item 4. Removed and Reserved</u>	28
<u>Item 5. Other Information</u>	28
<u>Item 6. Exhibits</u>	29
<u>Signatures</u>	30

Table of ContentsPart I Financial Information

## Item 1. Financial Statements

## FIRST FINANCIAL CORPORATION

## CONSOLIDATED BALANCE SHEETS

(Dollar amounts in thousands, except per share data)

	September 30, 2011	December 31, 2010
	(Unaudited)	
<b>ASSETS</b>		
Cash and due from banks	\$ 57,246	\$ 58,511
Federal funds sold and short-term investments		5,104
Securities available-for-sale	610,878	560,846
Loans:		
Commercial	925,265	896,107
Residential	441,113	437,576
Consumer	292,149	307,403
	1,658,527	1,641,086
Less:		
Unearned Income	(855)	(940)
Allowance for loan losses	(22,128)	(22,336)
	1,635,544	1,617,810
Restricted Stock	21,965	25,308
Accrued interest receivable	11,322	11,208
Premises and equipment, net	33,578	34,691
Bank-owned life insurance	72,937	66,112
Goodwill	7,102	7,102
Other intangible assets	3,306	4,148
Other real estate owned	5,053	6,325
FDIC indemnification asset	3,808	3,977
Other assets	48,556	49,953
<b>TOTAL ASSETS</b>	<b>\$ 2,511,295</b>	<b>\$ 2,451,095</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Deposits:		
Noninterest-bearing	\$ 349,228	\$ 304,101
Interest-bearing:		
Certificates of deposit of \$100 or more	204,383	215,501
Other interest-bearing deposits	1,373,349	1,383,441
	1,926,960	1,903,043
Short-term borrowings	40,637	34,106
Other borrowings	124,210	125,793
Other liabilities	62,913	66,436
<b>TOTAL LIABILITIES</b>	<b>2,154,720</b>	<b>2,129,378</b>
Shareholders equity		

Edgar Filing: FIRST FINANCIAL CORP /IN/ - Form 10-Q

Common stock, \$.125 stated value per share;				
Authorized shares-40,000,000				
Issued shares-14,450,966				
Outstanding shares-13,151,630 in 2011 and 2010		1,806		1,806
Additional paid-in capital		68,944		68,944
Retained earnings		314,172		293,319
Accumulated other comprehensive income (loss)		4,636		(9,369)
Treasury shares at cost-1,299,336 in 2011 and 2010		(32,983)		(32,983)
<b>TOTAL SHAREHOLDERS EQUITY</b>		<b>356,575</b>		<b>321,717</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>	<b>\$</b>	<b>2,511,295</b>	<b>\$</b>	<b>2,451,095</b>

See accompanying notes.

Table of Contents

## FIRST FINANCIAL CORPORATION

## CONSOLIDATED STATEMENTS OF INCOME

(Dollar amounts in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011 (unaudited)	2010 (unaudited)	2011 (unaudited)	2010 (unaudited)
<b>INTEREST INCOME:</b>				
Loans, including related fees	\$ 22,943	\$ 24,355	\$ 68,903	\$ 72,407
<b>Securities:</b>				
Taxable	4,016	4,544	12,532	14,394
Tax-exempt	1,712	1,680	5,075	4,982
Other	479	607	1,426	1,575
<b>TOTAL INTEREST INCOME</b>	<b>29,150</b>	<b>31,186</b>	<b>87,936</b>	<b>93,358</b>
<b>INTEREST EXPENSE:</b>				
Deposits	2,974	3,932	9,339	12,589
Short-term borrowings	56	80	151	250
Other borrowings	1,216	2,521	3,628	8,504
<b>TOTAL INTEREST EXPENSE</b>	<b>4,246</b>	<b>6,533</b>	<b>13,118</b>	<b>21,343</b>
<b>NET INTEREST INCOME</b>	<b>24,904</b>	<b>24,653</b>	<b>74,818</b>	<b>72,015</b>
Provision for loan losses	1,360	2,390	3,894	7,010
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>	<b>23,544</b>	<b>22,263</b>	<b>70,924</b>	<b>65,005</b>
<b>NON-INTEREST INCOME:</b>				
Trust and financial services	1,002	1,077	3,530	3,533
Service charges and fees on deposit accounts	2,305	2,737	6,808	7,809
Other service charges and fees	2,142	2,027	6,223	5,786
Securities gains/(losses), net		28	7	273
Total Impairment Losses	(13)	(859)	(110)	(4,028)
Loss recognized in other comprehensive loss				
Net impairment loss recognized in earnings	(13)	(859)	(110)	(4,028)
Insurance commissions	1,935	1,590	5,328	4,842
Gain on sales of mortgage loans	406	630	1,144	1,301
Other	1,133	66	2,168	666
<b>TOTAL NON-INTEREST INCOME</b>	<b>8,910</b>	<b>7,296</b>	<b>25,098</b>	<b>20,182</b>
<b>NON-INTEREST EXPENSE:</b>				
Salaries and employee benefits	11,475	12,046	34,430	33,554
Occupancy expense	1,171	1,374	3,624	3,776
Equipment expense	1,079	1,190	3,308	3,611
FDIC Insurance	161	757	1,440	2,186
Other	4,667	5,213	14,113	14,434
<b>TOTAL NON-INTEREST EXPENSE</b>	<b>18,553</b>	<b>20,580</b>	<b>56,915</b>	<b>57,561</b>
<b>INCOME BEFORE INCOME TAXES</b>	<b>13,901</b>	<b>8,979</b>	<b>39,107</b>	<b>27,626</b>
Provision for income taxes	4,087	2,686	12,073	7,934
<b>NET INCOME</b>	<b>\$ 9,814</b>	<b>\$ 6,293</b>	<b>\$ 27,034</b>	<b>\$ 19,692</b>

Edgar Filing: FIRST FINANCIAL CORP /IN/ - Form 10-Q

PER SHARE DATA

Basic and Diluted	\$	0.75	\$	0.48	\$	2.06	\$	1.50
Dividends Per Share	\$	0.47	\$	0.46	\$	0.47	\$	0.46
Weighted average number of shares outstanding (in thousands)		13,152		13,107		13,152		13,113

See accompanying notes.

Table of Contents

## FIRST FINANCIAL CORPORATION

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

Three Months Ended

September 30, 2011, and 2010

(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, 2011	\$ 1,806	\$ 68,944	\$ 304,358	\$ 540	\$ (32,983)	\$ 342,665
Comprehensive income:						
Net income			9,814			9,814
Change in net unrealized gains/(losses) on securities available for-sale				3,793		3,793
Change in funded status of retirement plans				303		303
Total comprehensive income/(loss)						13,910
Balance, September 30, 2011	\$ 1,806	\$ 68,944	\$ 314,172	\$ 4,636	\$ (32,983)	\$ 356,575
Balance, July 1, 2010	\$ 1,806	\$ 68,739	\$ 284,724	\$ (2,024)	\$ (34,059)	\$ 319,186
Comprehensive income:						
Net income			6,293			6,293
Change in net unrealized gains/(losses) on securities available for-sale				2,091		2,091
Change in funded status of retirement plans				178		178
Total comprehensive income/(loss)						8,562
Treasury stock purchase (2,500 shares)					(66)	(66)
Balance, September 30, 2010	\$ 1,806	\$ 68,739	\$ 291,017	\$ 245	\$ (34,125)	\$ 327,682

See accompanying notes.





Table of Contents

## FIRST FINANCIAL CORPORATION

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

Nine Months Ended

September 30, 2010, and 2009

(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, 2011	\$ 1,806	\$ 68,944	\$ 293,319	\$ (9,369)	\$ (32,983)	\$ 321,717
Comprehensive income:						
Net income			27,034			27,034
Change in net unrealized gains/(losses) on securities available for-sale				13,097		13,097
Change in funded status of retirement plans				908		908
Total comprehensive income/(loss)						41,039
Cash Dividends, \$.47 per share			(6,181)			(6,181)
Balance, September 30, 2011	\$ 1,806	\$ 68,944	\$ 314,172	\$ 4,636	\$ (32,983)	\$ 356,575
Balance, January 1, 2010	\$ 1,806	\$ 68,739	\$ 277,357	\$ (7,904)	\$ (33,515)	\$ 306,483
Comprehensive income:						
Net income			19,692			19,692
Change in net unrealized gains/(losses) on securities available for-sale				7,615		7,615
Change in funded status of retirement plans				534		534
Total comprehensive income/(loss)						27,841
Cash Dividends, \$.46 per share			(6,032)			(6,032)
Treasury stock purchase (23,000 shares)					(610)	(610)
Balance, September 30, 2010	\$ 1,806	\$ 68,739	\$ 291,017	\$ 245	\$ (34,125)	\$ 327,682

See accompanying notes.



Table of Contents

## FIRST FINANCIAL CORPORATION

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollar amounts in thousands, except per share data)

	Nine Months Ended September 30,	
	2011 (unaudited)	2010 (unaudited)
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net Income	\$ 27,034	\$ 19,692
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization (accretion) of premiums and discounts on investments	11	(768)
Provision for loan losses	3,894	7,010
Securities (gains) losses	(7)	(273)
Securities impairment loss	110	4,028
Gain on exchange of bank owned life insurance	(928)	
(Gain) loss on sale of other real estate	232	80
Depreciation and amortization	2,329	3,528
Other, net	(5,300)	6,347
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>27,375</b>	<b>39,644</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sales of securities available-for-sale	3,368	7,250
Calls, maturities and principal reductions on securities available-for-sale	98,661	174,359
Purchases of securities available-for-sale	(127,003)	(179,137)
Loans made to customers, net of repayment	(23,755)	(15,613)
Purchases of bank owned life insurance	(4,500)	
Proceeds from sales of other real estate owned	3,285	2,628
Net change in federal funds sold	5,104	(56,404)
Additions to premises and equipment	(374)	(1,440)
<b>NET CASH FROM INVESTING ACTIVITIES</b>	<b>(45,214)</b>	<b>(68,357)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net change in deposits	23,857	127,838
Net change in short-term borrowings	6,531	5,782
Dividends paid	(12,231)	(11,940)
Purchase of treasury stock		(610)
Proceeds from other borrowings		2,000
Repayments on other borrowings	(1,583)	(115,577)
<b>NET CASH FROM FINANCING ACTIVITIES</b>	<b>16,574</b>	<b>7,493</b>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>(1,265)</b>	<b>(21,220)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>58,511</b>	<b>84,371</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 57,246</b>	<b>\$ 63,151</b>

See accompanying notes.



Table of Contents

## FIRST FINANCIAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The accompanying September 30, 2011 and 2010 consolidated financial statements are unaudited. The December 31, 2010 consolidated financial statements are as reported in the First Financial Corporation (the Corporation) 2010 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 2010 annual report filed with the Securities and Exchange Commission as an exhibit to Form 10-K filed for the fiscal year ended December 31, 2010.

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.

2. Allowance for Loan Losses

The activity in the Corporation's allowance for loan losses for the nine months ended September 30 is shown in the following analysis:

(Dollar amounts in thousands)	September 30,	
	2011	2010
Balance at beginning of period	\$ 22,336	\$ 19,437
Provision for loan losses *	4,065	7,010
Recoveries of loans previously charged off	1,638	3,681
Loans charged off	(5,911)	(10,154)
Balance at end of period	\$ 22,128	\$ 19,974

\* Provision before decrease of \$171 thousand in 2011 for increase in FDIC indemnification asset

The following table presents the activity of the allowance for loan losses by portfolio segment for the three months ended September 30, 2011.

Edgar Filing: FIRST FINANCIAL CORP /IN/ - Form 10-Q

Allowance for Loan Losses:

(Dollar amounts in thousands)	September 30,					Total
	Commercial	Residential	Consumer	Unallocated		
Beginning balance	\$ 12,886	\$ 3,564	\$ 3,978	\$ 1,197	\$	21,625
Provision for loan losses*	(422)	727	545	785		1,635
Loans charged -off	(536)	(325)	(802)			(1,663)
Recoveries	310		221			531
Ending Balance	\$ 12,238	\$ 3,966	\$ 3,942	\$ 1,982	\$	22,128

\* Provision before decrease of \$275 thousand in 2011 for increase in FDIC indemnification asset

The following table presents the activity of the allowance for loan losses by portfolio segment for the nine months ended September 30, 2011.

Allowance for Loan Losses:

(Dollar amounts in thousands)	September 30,					Total
	Commercial	Residential	Consumer	Unallocated		
Beginning balance	\$ 12,809	\$ 2,873	\$ 4,551	\$ 2,103	\$	22,336
Provision for loan losses*	1,587	2,021	578	(121)		4,065
Loans charged -off	(2,903)	(1,015)	(1,993)			(5,911)
Recoveries	745	87	806			1,638
Ending Balance	\$ 12,238	\$ 3,966	\$ 3,942	\$ 1,982	\$	22,128

\* Provision before decrease of \$171 thousand in 2011 for increase in FDIC indemnification asset

Edgar Filing: FIRST FINANCIAL CORP /IN/ - Form 10-Q

Table of Contents

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, 2011 and December 31, 2010.

Ending Balance Attributable to Loans:

(Dollar amounts in thousands)	September 30, 2011				Total
	Commercial	Residential	Consumer	Unallocated	
Individually evaluated for impairment	\$ 4,838	\$ 1,422	\$	\$	\$ 6,260
Collectively evaluated for impairment	6,675	2,178	3,942	1,982	14,777
Acquired with deteriorated credit quality	725	366			1,091
Ending Balance	\$ 12,238	\$ 3,966	\$ 3,942	\$ 1,982	\$ 22,128

Loans:

(Dollar amounts in thousands)	September 30, 2011				Total
	Commercial	Residential	Consumer		
Individually evaluated for impairment	\$ 28,064	\$ 3,764	\$	\$	\$ 31,828
Collectively evaluated for impairment	896,416	437,723	293,462		1,627,601
Acquired with deteriorated credit quality	6,257	1,070	12		7,339
Ending Balance	\$ 930,737	\$ 442,557	\$ 293,474		\$ 1,666,768

Ending Balance Attributable to Loans:

(Dollar amounts in thousands)	December 31, 2010				Total
	Commercial	Residential	Consumer	Unallocated	
Individually evaluated for impairment	\$ 3,893	\$ 625	\$	\$	\$ 4,518
Collectively evaluated for impairment	7,788	1,897	4,551	2,103	16,339
Acquired with deteriorated credit quality	1,128	351			1,479
Ending Balance	\$ 12,809	\$ 2,873	\$ 4,551	\$ 2,103	\$ 22,336

Loans

(Dollar amounts in thousands)	December 31, 2010				Total
	Commercial	Residential	Consumer		
Individually evaluated for impairment	\$ 27,717	\$ 2,770	\$	\$	\$ 30,487
Collectively evaluated for impairment	863,790	435,231	308,903		1,607,924
Acquired with deteriorated credit quality	9,938	1,113	15		11,066
Ending Balance	\$ 901,445	\$ 439,114	\$ 308,918		\$ 1,649,477



## Edgar Filing: FIRST FINANCIAL CORP /IN/ - Form 10-Q

A loan is considered to be impaired when, based upon current information and events, it is probable that the Corporation will be unable to collect all amounts due according to the contractual terms of the loan. Large groups of smaller balance homogeneous loans, such as consumer, residential real estate and smaller commercial loans are collectively evaluated for impairment and, accordingly, they are not separately identified for impairment disclosures. Also included in impaired loans are loans acquired in the First National Bank of Danville acquisition. See Note 9 for further discussion of these loans. Impairment is primarily measured based on the fair value of the loan's collateral. The following table summarizes impaired loan information:

<b>(Dollar amounts in thousands)</b>	<b>September 30,</b>		<b>December 31,</b>	
	<b>2011</b>		<b>2010</b>	
Loans with no allocated allowance for loan losses	\$	1,975	\$	11,890
Loans with allocated allowance for loan losses		35,132		25,629
<b>TOTAL</b>	\$	37,107	\$	37,519

Interest payments on impaired loans are typically applied to principal unless collection of the principal amount is deemed to be fully assured, in which case interest is recognized on a cash basis.

Table of Contents

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

(Dollar amounts in thousands)	September 30, 2011		
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
With no related allowance recorded:			
Commercial			
Commercial & Industrial	\$	\$	\$
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	18,283	18,280	2,153
Farmland	891	908	
Non Farm, Non Residential	9,704	9,704	3,257
Agriculture			
All Other Commercial	1,614	1,614	82
Residential			
First Liens	3,123	3,126	1,097
Home Equity			
Junior Liens	879	879	363
Multifamily	638	638	325
All Other Residential			
Consumer			
Motor Vehicle			
All Other Consumer			
<b>TOTAL</b>	<b>\$ 37,107</b>	<b>\$ 37,124</b>	<b>\$ 7,277</b>

Table of Contents

(Dollar amounts in thousands)	Three Months Ended September 30, 2011			Nine Months Ended September 30, 2011		
	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	\$	\$	\$	\$ 2,411	\$	\$
Farmland						
Non Farm, Non Residential	2,877			2,967		
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	18,108	76		16,466	310	1
Farmland	454			227		
Non Farm, Non Residential	9,395			9,692		
Agriculture						
All Other Commercial	1,703			1,710		
Residential						
First Liens	2,518			2,214		
Home Equity						
Junior Liens	887			952		
Multifamily	638			638		
All Other Residential						
Consumer						
Motor Vehicle						
All Other Consumer						
<b>TOTAL</b>	<b>\$ 36,580</b>	<b>\$ 76</b>	<b>\$</b>	<b>\$ 37,277</b>	<b>\$ 310</b>	<b>\$ 1</b>

Table of Contents

(Dollar amounts in thousands)	December 31, 2010		
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
With no related allowance recorded:			
Commercial			
Commercial & Industrial	\$ 8,935	\$ 8,993	\$
Farmland			
Non Farm, Non Residential	2,955	2,955	
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	10,933	10,996	1,508
Farmland			
Non Farm, Non Residential	9,442	9,442	3,255
Agriculture			
All Other Commercial	1,577	1,577	128
Residential			
First Liens	1,910	1,910	533
Home Equity			
Junior Liens	1,129	1,129	443
Multifamily	638	638	
All Other Residential			
Consumer			
Motor Vehicle			
All Other Consumer			
<b>TOTAL</b>	<b>\$ 37,519</b>	<b>\$ 37,640</b>	<b>\$ 5,867</b>

Table of Contents

The table below presents non-performing loans.

(Dollar amounts in thousands)	September 30, 2011		
	Loans Past Due Over 90 Day Still Accruing	Restructured	Nonaccrual
<b>Commercial</b>			
Commercial & Industrial	\$ 574	\$ 12,814	\$ 15,635
Farmland	725		89
Non Farm, Non Residential	455		13,189
Agriculture	27		238
All Other Commercial	115		1,744
<b>Residential</b>			
First Liens	829	3,311	7,199
Home Equity	9		
Junior Liens	123	898	1,052
Multifamily			1,056
All Other Residential		43	136
<b>Consumer</b>			
Motor Vehicle	148		202
All Other Consumer	10		1,629
<b>TOTAL</b>	<b>\$ 3,015</b>	<b>\$ 17,066</b>	<b>\$ 42,169</b>

(Dollar amounts in thousands)	December 31, 2010		
	Loans Past Due Over 90 Day Still Accruing	Restructured	Nonaccrual
<b>Commercial</b>			
Commercial & Industrial	\$ 1,462	\$ 13,671	\$ 11,677
Farmland			68
Non Farm, Non Residential	506		13,808
Agriculture			284
All Other Commercial	158		2,011
<b>Residential</b>			
First Liens	971	2,605	6,141
Home Equity	45		
Junior Liens	66	928	1,454
Multifamily			990
All Other Residential			150
<b>Consumer</b>			
Motor Vehicle	91		259
All Other Consumer	4		1,675
<b>TOTAL</b>	<b>\$ 3,303</b>	<b>\$ 17,204</b>	<b>\$ 38,517</b>

Covered loans included in loans past due over 90 days still on accrual are \$396 thousand at September 30, 2011 and \$377 thousand at December 31, 2010. Covered loans included in non-accrual loans are \$6.7 million at September 30, 2011 and \$8.7 million at December 31, 2010. Covered loans of \$5.3 million at September 30, 2011 and \$7.2 million at December 31, 2010 are deemed impaired and have allowance for loan loss allocated to them of \$1.0 million and \$1.3 million, respectively for September 30, 2011 and December 31, 2010. Non-performing loans include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.



Edgar Filing: FIRST FINANCIAL CORP /IN/ - Form 10-Q

Table of Contents

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

(Dollar amounts in thousands)	September 30, 2011					
	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 days Past Due	Total Past Due	Current	Total
<b>Commercial</b>						
Commercial & Industrial	\$ 2,017	\$ 337	\$ 4,572	\$ 6,926	\$ 417,317	\$ 424,243
Farmland	6	835	794	1,635	75,970	77,605
Non Farm, Non Residential	3,181	1,159	8,865	13,205	234,795	248,000
Agriculture	87	48	130	265	96,343	96,608
All Other Commercial	18	61	196	275	84,006	84,281
<b>Residential</b>						
First Liens	2,042	1,049	4,630	7,721	322,438	330,159
Home Equity	67	24	9	100	35,107	35,207
Junior Liens	229	112	140	481	32,180	32,661
Multifamily	71		1,056	1,127	30,696	31,823
All Other Residential					12,707	12,707
<b>Consumer</b>						
Motor Vehicle	2,945	399	161	3,505	265,593	269,098
All Other Consumer	141	31	26	198	24,178	24,376
<b>TOTAL</b>	<b>\$ 10,804</b>	<b>\$ 4,055</b>	<b>\$ 20,579</b>	<b>\$ 35,438</b>	<b>\$ 1,631,330</b>	<b>\$ 1,666,768</b>

(Dollar amounts in thousands)	December 31, 2010					
	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 days Past Due	Total Past Due	Current	Total
<b>Commercial</b>						
Commercial & Industrial	\$ 2,619	\$ 882	\$ 3,868	\$ 7,369	\$ 405,319	\$ 412,688
Farmland	63	198		261	71,672	71,933
Non Farm, Non Residential	761	1,763	4,366	6,890	260,685	267,575
Agriculture	55		284	339	85,275	85,614
All Other Commercial		135	283	418	63,217	63,635
<b>Residential</b>						
First Liens	5,405	1,649	3,793	10,847	310,722	321,569
Home Equity	78	11	45	134	38,638	38,772
Junior Liens	287	165	175	627	33,394	34,021
Multifamily	706		352	1,058	32,605	33,663
All Other Residential	144			144	10,945	11,089
<b>Consumer</b>						
Motor Vehicle	2,994	378	91	3,463	279,029	282,492
All Other Consumer	138	23	6	167	26,259	26,426
<b>TOTAL</b>	<b>\$ 13,250</b>	<b>\$ 5,204</b>	<b>\$ 13,263</b>	<b>\$ 31,717</b>	<b>\$ 1,617,760</b>	<b>\$ 1,649,477</b>

The Corporation has allocated \$1.1 million and \$657 thousand of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of September 30, 2011 and December 31, 2010. The Corporation has not committed to lend additional amounts as of September 30, 2011 and December 31, 2010 to customers with outstanding loans that are classified as troubled debt restructurings.

The Corporation has had one residential loan with a recorded investment of \$15 thousand that was modified as a troubled debt restructuring that was charged off during 2011. There have been two commercial loans for \$200 thousand and four residential loans for \$288 thousand added to

Edgar Filing: FIRST FINANCIAL CORP /IN/ - Form 10-Q

restructured loans during the nine months ended September 30, 2011. There are three modified residential loans for \$51 thousand that are 90 days past due. None of these loans have had a material impact on the allowance for loan losses.



Table of Contents

## 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:

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

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

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

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

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans. Loans listed as not rated are either less than \$50 thousand or are included in groups of homogeneous loans and are evaluated based on past due status. As of September 30, 2011 and December 31, 2010, and based on the most recent analysis performed, the risk category of loans by class of loans are as follows:

(Dollar amounts in thousands)	September 30, 2011					
	Pass	Special Mention	Substandard	Doubtful	Not Rated	Total
Commercial						
Commercial & Industrial	\$ 337,270	\$ 18,345	\$ 55,121	\$ 2,302	\$ 10,056	\$ 423,094
Farmland	72,362	260	3,098	69	146	75,935
Non Farm, Non Residential	190,147	26,175	27,049	2,019	1,900	247,290
Agriculture	92,818	1,088	794	80	261	95,041

Edgar Filing: FIRST FINANCIAL CORP /IN/ - Form 10-Q

All Other Commercial	79,572	457	3,010	174	692	83,905
Residential						
First Liens	93,588	10,581	9,625	2,523	212,635	328,952
Home Equity	8,755	483	467	20	25,458	35,183
Junior Liens	5,016	476	376	968	25,712	32,548
Multifamily	28,491	815	1,384	994	81	31,765
All Other Residential	2,415				10,250	12,665
Consumer						
Motor Vehicle	12,143	408	490	42	254,850	267,933
All Other Consumer	3,287	41	127	13	20,748	24,216
TOTAL	\$ 925,864	\$ 59,129	\$ 101,541	\$ 9,204	\$ 562,789	\$ 1,658,527

Table of Contents

December 31, 2010

(Dollar amounts in thousands)	Pass	Special Mention	Substandard	Doubtful	Not Rated	Total
<b>Commercial</b>						
Commercial & Industrial	\$ 311,258	\$ 26,956	\$ 63,334	\$ 2,910	\$ 6,977	\$ 411,435
Farmland	66,920	1,535	1,691	68	109	70,323
Non Farm, Non Residential	208,847	29,399	24,579	3,364	544	266,733
Agriculture	82,275	602	1,008	284	154	84,323
All Other Commercial	52,704	6,188	2,799	468	1,134	63,293
<b>Residential</b>						
First Liens	93,887	6,201	7,495	2,944	209,804	320,331
Home Equity	8,641	4,447	427	23	25,200	38,738
Junior Liens	4,796	107	1,733	167	27,090	33,893
Multifamily	22,678	8,516	1,255	990	127	33,566
All Other Residential	1,349		26		9,673	11,048
<b>Consumer</b>						
Motor Vehicle	12,902	331	492	29	267,424	281,178
All Other Consumer	3,945	64	174	42	22,000	26,225
<b>TOTAL</b>	<b>\$ 870,202</b>	<b>\$ 84,346</b>	<b>\$ 105,013</b>	<b>\$ 11,289</b>	<b>\$ 570,236</b>	<b>\$ 1,641,086</b>

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)			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Government agencies	\$ 3,988	\$ 41	\$	\$ 4,029
Mortgage Backed Securities - Residential	295,641	18,110		313,751
Mortgage Backed Securities - Commercial	118	3		121
Collateralized Mortgage Obligations	107,289	3,914		111,203
State and Municipal Obligations	159,886	11,454	(7)	171,333
Collateralized Debt Obligations	14,059	1,583	(7,376)	8,266
Equity Securities	1,596	579		2,175
	\$ 582,577	\$ 35,684	\$ (7,383)	\$ 610,878

(Dollar amounts in thousands)	(000 s)			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Government agencies	\$ 2,027	\$ 46	\$	\$ 2,073
Mortgage Backed Securities-residential	289,962	13,166	(705)	302,423
Mortgage Backed Securities-commercial	136	3		139
Collateralized mortgage obligations	92,803	2,248	(594)	94,457
State and municipal	152,633	5,318	(411)	157,540
Collateralized debt obligations	15,084		(12,894)	2,190
Equities	1,729	295		2,024

Edgar Filing: FIRST FINANCIAL CORP /IN/ - Form 10-Q

TOTAL	\$	554,374	\$	21,076	\$	(14,604)	\$	560,846
-------	----	---------	----	--------	----	----------	----	---------

Contractual maturities of debt securities at September 30, 2011 were as follows. Securities not due at a single maturity or with no maturity date, primarily mortgage-backed and equity securities are shown separately.

Table of Contents

(Dollar amounts in thousands)	September 30, 2011	
	Amortized Cost	Fair Value
Due in one year or less	\$ 6,510	\$ 6,556
Due after one but within five years	35,351	37,173
Due after five but within ten years	54,338	60,715
Due after ten years	189,023	190,387
	285,222	294,831
Mortgage-backed securities and equities	297,355	316,047
<b>TOTAL</b>	<b>\$ 582,577</b>	<b>\$ 610,878</b>

There were \$7 thousand in gains from investment sales and \$110 thousand in losses from OTTI realized by the Corporation for the nine months ended September 30, 2011. There were \$348 thousand in gains and \$75 thousand in losses realized by the Corporation on investment sales and calls for the nine months ended September 30, 2010. There was \$4.0 million in losses from OTTI realized by the Corporation for the nine months ended September 30, 2010.

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, 2011 and December 31, 2010.

(Dollar amounts in thousands)	September 30, 2011		September 30, 2011		Fair Value	Total Unrealized Losses
	Less Than 12 Months Fair Value	Less Than 12 Months Unrealized Losses	More Than 12 Months Fair Value	More Than 12 Months Unrealized Losses		
State and municipal obligations	\$ 1,015	\$ (7)	\$	\$	\$ 1,015	\$ (7)
Collateralized Debt Obligations			5,529	(7,376)	5,529	(7,376)
<b>Total temporarily impaired securities</b>	<b>\$ 1,015</b>	<b>\$ (7)</b>	<b>\$ 5,529</b>	<b>\$ (7,376)</b>	<b>\$ 6,544</b>	<b>\$ (7,383)</b>

(Dollar amounts in thousands)	December 31, 2010		December 31, 2010		Fair Value	Total Unrealized Losses
	Less Than 12 Months Fair Value	Less Than 12 Months Unrealized Losses	More Than 12 Months Fair Value	More Than 12 Months Unrealized Losses		
Mortgage Backed Securities - Residential	\$ 35,024	\$ (705)	\$	\$	\$ 35,024	\$ (705)
Collateralized Mortgage Obligations	25,338	(594)			25,338	(594)
State and municipal obligations	19,372	(411)			19,372	(411)
Collateralized Debt Obligations			2,190	(12,894)	2,190	(12,894)
<b>Total temporarily impaired securities</b>	<b>\$ 79,734</b>	<b>\$ (1,710)</b>	<b>\$ 2,190</b>	<b>\$ (12,894)</b>	<b>\$ 81,924</b>	<b>\$ (14,604)</b>

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

Table of Contents

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 \$7.4 million as of September 30, 2011 and \$14.6 million as of December 31, 2010. 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 there is further other than temporarily impairment at September 30, 2011 except for the equity securities discussed below. 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 four of the CDOs included in collateralized debt obligations were other-than-temporarily impaired, though no impairment was identified during 2011. Those four CDOs have a contractual balance of \$28.3 million at September 30, 2011 which has been reduced to \$7.4 million by \$0.5 million of interest payments received, \$15.1 million of cumulative OTTI charges recorded through earnings to date, and \$5.4 million recorded in other comprehensive income (\$3.2 million after tax effect). The severity of the OTTI recorded varies by security, based on the analysis described below, and ranges at September 30, 2011 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 \$1.3 million and a fair value of \$901 thousand 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 21.1 to 68.8 while Moody Investor Service pricing ranges from 0.46 to 86.38, 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 2010 the Corporation liquidated a majority of what was held in equity securities to reduce borrowings. In the first three months of 2011 one of the three remaining bank stocks was disposed of at a gain. In the second quarter the Corporation recognized other-than-temporary impairment on one of the remaining two equities in the amount of \$97 thousand. In the third quarter the Corporation recognized additional other-than-temporary impairment on one of the remaining two equities in the amount of \$13 thousand. Bank stock values have been negatively impacted by the current economic environment and market pessimism. The other bank stock holding has an unrealized gain.



Table of Contents

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

(Dollar amounts in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Beginning balance	\$ 15,167	\$ 14,529	\$ 15,070	\$ 11,360
Amounts related to credit loss for which an other-than-temporary impairment was not previously recognized		548		548
Increases to the amount related to the credit loss for which other-than-temporary impairment was previously recognized	13	311	110	3,480
Ending balance	\$ 15,180	\$ 15,388	\$ 15,180	\$ 15,388

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 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. The fair value of the trust preferred securities is computed based upon discounted cash flows estimated using 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 to the note classes. Current estimates 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 issuers. The payment, default and recovery assumptions are believed to reflect the assumptions of market participants. Cash flows are discounted at appropriate market rates, including consideration of credit spreads and illiquidity discounts. The fair value of 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 derivatives is based on valuation models using observable market data as of the measurement date (Level 2 inputs).

(Dollar amounts in thousands)	September 30, 2011			Carrying Value
	Level 1	Fair Value Measurements		
		Level 2	Level 3	
U.S. Government agencies	\$	\$	4,029	\$ 4,029
Mortgage Backed Securities-residential			313,751	313,751
Mortgage Backed Securities-commercial		\$	121	121
Collateralized mortgage obligations			111,203	111,203
State and municipal			162,651	171,333
Collateralized debt obligations				8,266
Equities		331		2,175
TOTAL	\$	\$	591,755	\$ 610,878
Derivative Assets				2,572
Derivative Liabilities				(2,572)

Table of Contents

(Dollar amounts in thousands)	December 31, 2010				Total
	Fair Value Measurements				
	Level 1	Level 2	Level 3		
U.S. Government agencies	\$	\$	2,073	\$	\$ 2,073
Mortgage Backed Securities-residential			302,423		302,423
Mortgage Backed Securities-commercial			139		139
Collateralized mortgage obligations			94,457		94,457
State and municipal			157,540		157,540
Collateralized debt obligations				2,190	2,190
Equities		506		1,518	2,024
TOTAL	\$	506	\$ 556,632	\$ 3,708	\$ 560,846
Derivative Assets			1,311		
Derivative Liabilities			(1,311)		

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 nine months ended September 30, 2011 and 2010.

(Dollar amounts in thousands)	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)							
	Three Months Ended			Nine Months Ended				
	September 30,			September 30,				
	2011	2010	2011	2010				
Beginning Balance	\$	17,219	\$	5,463	\$	3,708	\$	4,777
Total realized/unrealized gains or losses								
Included in earnings		(13)		(859)		(110)		(4,028)
Included in other comprehensive income				924				4,981
Settlements		(617)		0		6,461		(202)
Purchases		2,000				2,000		
Transfers into Level 3		203				6,733		
Ending Balance	\$	18,792	\$	5,528	\$	18,792	\$	5,528

There were no unrealized gains and losses recorded in earnings for the three and nine months ended September 30, 2011 for Level 3 assets and liabilities that are still held at September 30, 2011. Losses reported in earnings for the three and nine months ended September 30, 2010 are from assets still held at September 30, 2010.

The fair value for certain local municipal securities with a fair value of \$6.5 million as of June 30, 2011 was transferred out of Level 2 and into Level 3 because of a lack of observable market data for these investments due to a decrease in the market activity for this security. During the three months ended September 30, 2011, there was an additional \$203 thousand of local municipal securities transferred out of level 2 into level 3 because of a lack of observable market data for these investments due to a decrease in the market activity for this security.

All impaired loans disclosed in footnote 2 are valued at Level 3 and are carried at a fair value of \$29.8 million, net of a valuation allowance of \$7.3 million at September 30, 2011. At December 31, 2010 impaired loans valued at Level 3 were carried at a fair value of \$31.6 million, net of a valuation allowance of \$5.9 million. The impact to the provision for loan losses was \$376 and \$(95) thousand for the three and nine months ended September 30, 2011, and was \$866 thousand and \$1.4 million for the three and nine months ended September 30, 2010. 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.

The carrying amounts and estimated fair value of financial instruments at September 30, 2011 and December 31, 2010, 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 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 credit risk. 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 FHLB stock due to restrictions placed on its transferability. Fair value of debt is based on current rates for similar financing. The fair value of off-balance sheet items is not considered material.

Edgar Filing: FIRST FINANCIAL CORP /IN/ - Form 10-Q

Table of Contents

The carrying amount and estimated fair value of financial instruments are presented in the table below and were determined based on the above assumptions:

(Dollar amounts in thousands)	September 30, 2010		December 31, 2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and due from banks	\$ 57,246	\$ 57,246	\$ 58,511	\$ 58,511
Federal funds sold	0	0	5,104	5,104
Securities available for sale	610,878	610,878	560,846	560,846
Federal Home Loan Bank Stock	20,310	N/A	23,654	n/a
Loans, net	1,635,544	1,660,378	1,617,810	1,607,895
FDIC Indemnification Asset	3,808	3,808	3,977	3,977
Accrued interest receivable	11,322	11,322	11,208	11,208
Deposits	(1,926,960)	(1,932,680)	(1,903,043)	(1,909,874)
Short term borrowings	(40,637)	(40,637)	(34,106)	(34,106)
Federal Home Loan Bank advances	(124,210)	(128,046)	(125,793)	(128,881)
Accrued interest payable	(1,576)	(1,576)	(2,041)	(2,041)

The following tables presents loans identified as impaired by class of loans as of September 30, 2011 and December 31, 2010.

(Dollar amounts in thousands)	September 30, 2011		
	Unpaid Principal Balance	Allowance for Loan Losses Allocated	Fair Value
<b>Commercial</b>			
Commercial & Industrial	\$ 18,283	\$ 2,153	\$ 16,130
Farmland	\$ 891	\$	\$ 891
Non Farm, Non Residential	11,679	3,257	8,422
All Other Commercial	1,614	82	1,532
<b>Residential</b>			
First Liens	3,123	1,097	2,026
Junior Liens	879	363	516
Multifamily	638	325	313
TOTAL	\$ 37,107	\$ 7,277	\$ 29,830

(Dollar amounts in thousands)	December 31, 2010		
	Unpaid Principal Balance	Allowance for Loan Losses Allocated	Fair Value
<b>Commercial</b>			
Commercial & Industrial	\$ 19,868	\$ 1,508	\$ 18,360
Non Farm, Non Residential	12,397	3,255	9,142
All Other Commercial	1,577	128	1,449
<b>Residential</b>			
First Liens	1,910	533	1,377
Junior Liens	1,129	443	686
Multifamily	638		638

TOTAL	\$	37,519	\$	5,867	\$	31,652
-------	----	--------	----	-------	----	--------

Table of Contents5. Short-Term Borrowings

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

	(000 s)	
	September 30, 2011	December 31, 2010
Federal Funds Purchased	\$ 12,256	\$ 3,310
Repurchase Agreements	26,837	28,936
Note Payable - U.S. Government	1,544	1,860
	\$ 40,637	\$ 34,106

6. Other Borrowings

Other borrowings at period-end are summarized as follows:

	(000 s)	
	September 30, 2011	December 31, 2010
FHLB Advances	\$ 124,210	\$ 125,793

7. Components of Net Periodic Benefit Cost

	Three Months Ended September 30, (000 s)				Nine Months Ended September 30, (000 s)			
	Pension Benefits		Post-Retirement Health Benefits		Pension Benefits		Post-Retirement Health Benefits	
	2011	2010	2011	2010	2011	2010	2011	2010
Service cost	\$ 775	\$ 773	\$ 27	\$ 16	\$ 2,325	\$ 2,319	\$ 82	\$ 49
Interest cost	824	828	60	54	2,472	2,485	180	164
Expected return on plan assets	(964)	(850)			(2,893)	(2,550)		
Amortization of transition obligation			15	16			45	45
Net amortization of prior service cost	(4)	(4)			(13)	(13)		
Net amortization of net (gain) loss	161	245		3	482	736		9
Net Periodic Benefit Cost	\$ 792	\$ 992	\$ 102	\$ 89	\$ 2,373	\$ 2,977	\$ 307	\$ 267

Employer Contributions

First Financial Corporation previously disclosed in its financial statements for the year ended December 31, 2010 that it expected to contribute \$4.9 and \$1.4 million respectively to its Pension Plan and ESOP and \$210,000 to the Post Retirement Health Benefits Plan in 2011. Contributions of \$6.4 million have been made through the first nine months of 2011 for the Pension Plan. Contributions of \$174 thousand have been made through the third quarter of 2011 for the Post Retirement Health Benefits plan.

8. New accounting standards

In April 2011, the FASB amended existing guidance for assisting a creditor in determining whether a restructuring is a troubled debt restructuring. The amendments clarify the guidance for a creditor's evaluation of whether it has granted a concession and whether a debtor is experiencing financial difficulties. With regard to determining whether a concession has been granted, the ASU clarifies that creditors are precluded from using the effective interest method to determine whether a concession has been granted. In the absence of using the effective interest method, a creditor must now focus on other considerations such as the value of the underlying collateral, evaluation of other collateral or guarantees, the debtor's ability to access other funds at market rates, interest rate increases and whether the restructuring results in a delay in payment that is insignificant. This guidance is effective for interim and annual reporting periods beginning after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption. For purposes of measuring impairment on newly identified troubled debt restructurings, the amendments should be applied prospectively for the first interim or annual period beginning on or after June 15, 2011. This amendment did not have a material impact on the Company's consolidated financial position or results of operations.



Table of Contents

In June 2011, the FASB amended existing guidance and eliminated the option to present the components of other comprehensive income as a part of the statement of changes in shareholder's equity. The amendment requires that comprehensive income be presented in either a single continuous statement or in two separate statements. The amendments in this guidance are effective as of the beginning of a fiscal reporting year, and interim periods within that year, that begins after December 15, 2011. Early adoption is permitted. The adoption of this amendment will change the presentation of the components of comprehensive income for the Corporation as part of the consolidated statement of shareholder's equity.

In September 2011, the FASB issued an update to existing guidance relating to goodwill impairment testing. The amendments in this update permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than the carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. The more likely than not threshold is defined as having a likelihood of more than 50 percent. If after assessing the totality of events or circumstances, it is not more likely than not that the fair value of the reporting unit is less than its carrying amount, the entity is required to perform the first step of the two-step impairment. If the carrying amount of the reporting unit exceeds its fair value, then the entity is required to perform the second step of the goodwill impairment test to measure the amount of the impairment loss. This update is effective for the Company for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011 with early adoption is permitted. The Company is currently evaluating the impact of adopting the new guidance on the consolidated financial statements, but it is not expected to have a material impact.

9. Acquisitions

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 with 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 in 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 and entered into a loss sharing agreement with the FDIC. Under the loss sharing agreement, the Bank will share in the losses on assets covered under the agreement (referred to as covered assets). On losses up to \$29 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 \$14.3 million for losses and carrying expenses and currently carries a balance of \$3.8 million for expected future reimbursements. Included in the current balance is the estimate of \$1.0 million for 80% of the loans subject to the loss-sharing agreement identified in the allowance for loan loss evaluation as expected loan 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 September 30, 2011 and December 31, 2010, 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:

	<b>September 30, 2011</b>
<b>ASC 310-30</b>	<b>Non ASC 310-30</b>

Edgar Filing: FIRST FINANCIAL CORP /IN/ - Form 10-Q

(Dollar amounts in thousands)	Loans	Loans	Other	Total
Loans	\$ 7,327	\$ 33,785	\$	\$ 38,079
Foreclosed Assets			1,781	1,781
Total Covered Assets	\$ 7,327	\$ 33,785	\$ 1,781	\$ 42,893

(Dollar amounts in thousands)	December 31, 2010			Total
	ASC 310-30 Loans	Non ASC 310-30 Loans	Other	
Loans	\$ 10,948	\$ 35,485	\$	\$ 46,433
Foreclosed Assets			2,586	2,586
Total Covered Assets	\$ 10,948	\$ 35,485	\$ 2,586	\$ 49,019

Table of Contents

The rollforward of the FDIC Indemnification asset is as follows:

(Dollar amounts in thousands)	Quarter Ended September 30, 2011	Nine Months Ended September 30, 2011	Year Ended December 31, 2010
Beginning balance	\$ 4,765	\$ 3,977	\$ 12,124
Accretion		38	339
Net changes in losses and expenses added	(194)	995	4,570
Reimbursements from the FDIC	(763)	(1,202)	(13,056)
<b>TOTAL</b>	<b>\$ 3,808</b>	<b>\$ 3,808</b>	<b>\$ 3,977</b>

On the acquisition date, the preliminary estimate of the contractually required payments receivable for all ASC 310-30 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 were \$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 September 30, 2011, 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 \$1.1 million allowance for credit losses related to these loans at September 30, 2011. On the acquisition date, the preliminary estimate of the contractually required payments receivable for all Non FASB ASC 310-30 loans acquired in the acquisition were \$58.4 million and the estimated fair value of the loans were \$60.7 million.

On October 11, 2011 the Corporation entered into a definitive agreement to acquire all of the stock of Freestar Bank and certain liabilities of PNB Holding Co. located in Pontiac Illinois. Freestar Bank has assets of approximately \$400 million and 13 offices located in east-central Illinois. Under the terms of the acquisition agreement, First Financial Corporation will pay PNB Holding cash in the amount of \$47 million and assume liabilities of PNB Holding Co. totaling approximately \$8.2 million. The transaction value may change due to fluctuations in the tangible book value of PNB Holding, determined as of the time of closing to the effective date of the transaction. If PNB Holding's tangible book value is less than \$28,431,000, the purchase price will decrease by an amount equal to 1.657 times the difference between PNB Holding's tangible book value and \$28,431,000. If PNB Holding's tangible book value is greater than \$28,987,000, the purchase price will increase by an amount equal to 1.657 times the difference between PNB Holding's tangible book value and \$28,987,000.

The transaction is expected to close by December 31, 2011, and is subject to approval by regulatory authorities, PNB Holding's shareholders and the satisfaction of the closing conditions provided in the acquisition agreement. First Financial Corporation anticipates that it will merge Freestar Bank into First Financial Bank soon after the closing of the transaction.

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 annual report for 2010 filed as an exhibit to the Corporation's 10-K filed for the fiscal year ended December 31, 2010.

## Edgar Filing: FIRST FINANCIAL CORP /IN/ - Form 10-Q

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 Annual Report on Form 10-K for the year ended December 31, 2010, 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](http://www.sec.gov) or on the Corporation's Web site at [www.first-online.com](http://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.

Table of Contents

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 2010 Annual Report on Form 10-K.

Summary of Operating Results

Net income for the three and nine months ended September 30, 2011 was \$9.8 and \$27.0 million respectively compared to \$6.3 and \$19.7 million for the same period of 2010. Basic earnings per share increased to \$0.75 for the third quarter of 2011 compared to \$0.48 for same period of 2010. Return on Assets and Return on Equity were 1.57% and 11.32% respectively for the three months ended September 30, 2011, compared to 0.99% and 7.79% for the three months ended September 30, 2010.

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 \$251 thousand in the three months ended September 30, 2011 to \$24.9 million from \$24.7 million in the same period in 2010. The net interest margin for the three months ended September 30, 2011 is 4.50% compared to 4.39% for the same period of 2010, a 2.5% increase, driven by a greater decline in the costs of funding than the decline in the income realized on earning assets.

Non-Interest Income

Non-interest income for the three months ended September 30, 2011 was \$8.9 million compared to the \$7.3 million for the same period of 2010. During the current quarter the Corporation realized a \$928 thousand gain on the exchange of bank owned life insurance policies. During the three months ended September 30, 2010 there was \$859 thousand loss on investments from other-than-temporary impairment compared to \$13 thousand during the current quarter.

Non-Interest Expenses

The Corporation's non-interest expense for the quarter ended September 30, 2011 decreased by \$2.0 million compared to the same period in 2010. FDIC insurance expense reductions realized from the new assessment calculations based on assets rather than deposits during the current quarter accounted for \$596 thousand of reduced expense. Incentive expenses in 2010 did not start being accrued until the third quarter of 2010 as the previous incentive plan had expired at the end of 2009 and the current incentive plan was just beginning to take shape at the beginning of the third quarter of 2010. 2011 incentive expense estimates are being spread over 12 months while 2010 were spread over 6 months.

Allowance for Loan Losses

The Corporation's provision for loan losses decreased \$1.0 million for the three months ended September 30, 2011 compared to the same period of 2010. Net charge offs for this period were reduced by \$1.2 million. The provision was \$3.9 million for the nine months ended September 30, 2011, compared to \$7.0 million for the same period of 2010, while net charge-offs for the same periods decreased by \$2.2 million. The volume of impaired and non-accrual loans have increased modestly, primarily due to increases in smaller balance non-accrual loans. The allowance for loan losses has increased to 1.33% of loans at September 30, 2011 compared to 1.22% at September 30, 2010. 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. A summary of non-performing loans at September 30, 2011 and December 31, 2010 follows:

Table of Contents

	(000 s)	
	September 30, 2011	December 31, 2010
Non-accrual loans	\$ 42,169	\$ 38,517
Restructured loans	16,347	17,094
Accruing loans past due over 90 days	2,845	3,185
	\$ 61,361	\$ 58,796
Ratio of the allowance for loan losses as a percentage of non-performing loans	36%	38%

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

	(000 s)	
	September 30, 2011	December 31, 2010
<u>Non-accrual loans</u>		
Commercial loans	\$ 30,895	\$ 27,848
Residential loans	9,443	8,735
Consumer loans	1,831	1,934
	\$ 42,169	\$ 38,517
<u>Past due 90 days or more</u>		
Commercial loans	\$ 1,811	\$ 2,041
Residential loans	881	1,052
Consumer loans	153	92
	\$ 2,845	\$ 3,185

The following table is information on the non-accrual loans at September 30, 2011 that were from the assumption of assets from The First National Bank of Danville

	(000 s) September 30, 2011	(000 s) December 31, 2010
<u>Non-accrual loans</u>		
Commercial loans	\$ 5,354	\$ 7,353
1-4 family residential	1,316	1,394
	\$ 6,670	\$ 8,747

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.

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.



Table of Contents

The table below shows the Corporation's estimated sensitivity profile as of September 30, 2011. 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 1.21% over the next 12 months and increase 4.20% over the following 12 months. Given a 100 basis point decrease in rates, net interest income would decrease 1.08% over the next 12 months and decrease 3.20% 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	-2.45%	-7.15%	-10.34%
Down 100	-1.08	-3.20	-4.61
Up 100	1.21	4.20	7.06
Up 200	1.70	7.21	12.89

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 is measured by each bank's ability to raise funds to meet the obligations of its customers, including deposit withdrawals and credit needs. This is accomplished primarily by maintaining sufficient liquid assets in the form of investment securities and core deposits. The Corporation has \$6.5 million of investments that mature throughout the coming 12 months. The Corporation also anticipates \$97.5 million of principal payments from mortgage-backed securities. Given the current rate environment, the Corporation anticipates \$10.8 million in securities to be called within the next 12 months. With these sources of funds, the Corporation currently anticipates adequate liquidity to meet the expected obligations of its customers.

Financial Condition

Comparing the third quarter of 2011 to the same period in 2010, loans, net of unearned discount are up \$18.0 million to \$1.66 billion. Deposits are up \$9.3 million at September 30, 2011 to \$1.93 billion. Shareholders' equity increased \$28.9 million from September 30, 2010. This financial performance increased book value per share 8.5% to \$27.11 at September 30, 2011 from \$25.00 at September 30, 2010. Book value per share is calculated by dividing the total shareholders' equity by the number of shares outstanding.

Capital Adequacy

As of September 30, 2011, 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.

Edgar Filing: FIRST FINANCIAL CORP /IN/ - Form 10-Q

	September 30, 2011	December 31, 2010	To Be Well Capitalized
<b>Total risk-based capital</b>			
Corporation	18.92%	17.82%	N/A
First Financial Bank	18.40%	17.29%	10.00%
<b>Tier I risk-based capital</b>			
Corporation	17.77%	16.66%	N/A
First Financial Bank	17.38%	16.26%	6.00%
<b>Tier I leverage capital</b>			
Corporation	13.74%	12.68%	N/A
First Financial Bank	13.38%	12.37%	5.00%

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 September 30, 2011, 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 September 30, 2011 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 September 30, 2011 that has materially affected, or is reasonably likely to materially affect, the Corporation's internal control over financial reporting.

Table of Contents

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 2010 Annual Report on Form 10-K.

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. (Removed and Reserved)

ITEM 5. Other Information.

Not applicable.

Table of Contents

ITEM 6. Exhibits.

<b>Exhibit No.:</b>	<b>Description of Exhibit:</b>
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, 2010 included as exhibit 10.1 of the Corporation's Form 10-K filed for the fiscal year ended December 31, 2010.
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	2011 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, 2010.
10.4	2011 Schedule of Named Executive Officer Compensation, incorporated by reference to the Corporation's Form 10-K filed for the fiscal year ended December 31, 2010.
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 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 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 September 4, 2007.
10.8	First Financial Corporation 2010 Short-Term Incentive Compensation Plan incorporated by reference to exhibit 10.8 of the Corporation's Form 10-K filed for the fiscal year ended December 31, 2010.
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 Long-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 filed for the quarterly period ended March 31, 2011.
31.1	Sarbanes-Oxley Act 302 Certification for Quarterly Report on Form 10-Q for the quarter ended September 30, 2011 by Principal Executive Officer, dated November 8, 2011
31.2	Sarbanes-Oxley Act 302 Certification for Quarterly Report on Form 10-Q for the quarter ended September 30, 2011 by Principal Financial Officer, dated November 8, 2011.
32.1	Certification, dated November 8, 2011, 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 September 30, 2011.
101.1	Financial statements from the Quarterly Report on Form 10-Q of the Corporation for the quarter ended September 30, 2011, formatted in XBRL: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of

Edgar Filing: FIRST FINANCIAL CORP /IN/ - Form 10-Q

Cash Flows, (iv) Consolidated Statements of Shareholders' Equity, and (v) Notes to Consolidated Financial Statements, as blocks of text and in detail\*\*.

---

\*\* As provided in Rule 406T of Regulation S-T, this information shall not be deemed filed for purposes of Section 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934 or otherwise subject to liability under those sections.

Table of Contents

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.

FIRST FINANCIAL CORPORATION  
(Registrant)

Date: November 8, 2011

By */s/ Donald E. Smith*  
Donald E. Smith, Chairman

Date: November 8, 2011

By */s/ Norman L. Lowery*  
Norman L. Lowery, Vice Chairman and CEO  
(Principal Executive Officer)

Date: November 8, 2011

By */s/ Rodger A. McHargue*  
Rodger A. McHargue, Treasurer and CFO  
(Principal Financial Officer)

## Edgar Filing: FIRST FINANCIAL CORP /IN/ - Form 10-Q

### Table of Contents

#### *Exhibit Index*

<b>Exhibit No.:</b>	<b>Description of Exhibit:</b>
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, 2010 included as exhibit 10.1 of the Corporation's Form 10-K filed for the fiscal year ended December 31, 2010.
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	2011 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, 2010.
10.4	2011 Schedule of Named Executive Officer Compensation, incorporated by reference to the Corporation's Form 10-K filed for the fiscal year ended December 31, 2010.
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 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 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 September 4, 2007.
10.8	First Financial Corporation 2010 Short-Term Incentive Compensation Plan incorporated by reference to exhibit 10.8 of the Corporation's Form 10-K filed for the fiscal year ended December 31, 2010.
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 Long-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 filed for the quarterly period ended March 31, 2011.
31.1	Sarbanes-Oxley Act 302 Certification for Quarterly Report on Form 10-Q for the quarter ended September 30, 2011 by Principal Executive Officer, dated November 8, 2011
31.2	Sarbanes-Oxley Act 302 Certification for Quarterly Report on Form 10-Q for the quarter ended September 30, 2011 by Principal Financial Officer, dated November 8, 2011.
32.1	Certification, dated November 8, 2011, 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 September 30, 2011.
101.1	Financial statements from the Quarterly Report on Form 10-Q of the Corporation for the quarter ended September 30, 2011, formatted in XBRL: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of



Edgar Filing: FIRST FINANCIAL CORP /IN/ - Form 10-Q

Cash Flows, (iv) Consolidated Statements of Shareholders' Equity, and (v) Notes to Consolidated Financial Statements, as blocks of text and in detail\*\*.

---

\*\* As provided in Rule 406T of Regulation S-T, this information shall not be deemed filed for purposes of Section 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934 or otherwise subject to liability under those sections.