

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<br>incorporation or organization) | (I.R.S. Employer<br>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,<br>2017<br>(unaudited) | December 31,<br>2016<br>(unaudited) |
|--|---------------------------------|-------------------------------------|
| <b>ASSETS</b>  |                                 |                                     |
| 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                              |
| <b>TOTAL ASSETS</b>  | <b>\$2,974,688</b>              | <b>\$ 2,988,527</b>                 |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                  |                                 |                                     |
| 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                              |
| <b>TOTAL LIABILITIES</b>                                     | <b>2,540,234</b>                | <b>2,574,132</b>                    |
| 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 )           |
| <b>TOTAL SHAREHOLDERS' EQUITY</b>                                     | <b>434,454</b>     | <b>414,395</b>      |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>                     | <b>\$2,974,688</b> | <b>\$ 2,988,527</b> |

See accompanying notes.

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CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(Dollar amounts in thousands, except per share data)

|  | Three Months<br>Ended<br>June 30, |               | Six Months Ended<br>June 30, |               |
|--|-----------------------------------|---------------|------------------------------|---------------|
|  | 2017                              | 2016          | 2017                         | 2016          |
|  | (unaudited)                       |               | (unaudited)                  |               |
| <b>INTEREST INCOME:</b>  |                                   |               |                              |               |
| 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           |
| <b>TOTAL INTEREST INCOME</b>   | <b>28,128</b>                     | <b>27,150</b> | <b>55,974</b>                | <b>54,351</b> |
| <b>INTEREST EXPENSE:</b>   |                                   |               |                              |               |
| Deposits   | 1,471                             | 1,030         | 2,746                        | 2,017         |
| Short-term borrowings  | 73                                | 26            | 117                          | 49            |
| Other borrowings   | 24                                | 35            | 44                           | 69            |
| <b>TOTAL INTEREST EXPENSE</b>  | <b>1,568</b>                      | <b>1,091</b>  | <b>2,907</b>                 | <b>2,135</b>  |
| <b>NET INTEREST INCOME</b>   | <b>26,560</b>                     | <b>26,059</b> | <b>53,067</b>                | <b>52,216</b> |
| Provision for loan losses  | 1,040                             | 435           | 2,636                        | 1,270         |
| <b>NET INTEREST INCOME AFTER PROVISION<br/>FOR LOAN LOSSES</b>                           | <b>25,520</b>                     | <b>25,624</b> | <b>50,431</b>                | <b>50,946</b> |
| <b>NON-INTEREST INCOME:</b>  |                                   |               |                              |               |
| 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<br>operation       | —                                 | —             | —                            | 13,021        |
| Gain on sales of mortgage loans  | 393                               | 481           | 720                          | 885           |
| Other  | 402                               | 648           | 3,821                        | 476           |
| <b>TOTAL NON-INTEREST INCOME</b>   | <b>8,113</b>                      | <b>8,214</b>  | <b>19,162</b>                | <b>30,580</b> |
| <b>NON-INTEREST EXPENSE:</b>   |                                   |               |                              |               |
| 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        |
| <b>TOTAL NON-INTEREST EXPENSE</b>  | <b>22,088</b>                     | <b>22,760</b> | <b>44,665</b>                | <b>46,107</b> |
| <b>INCOME BEFORE INCOME TAXES</b>  | <b>11,545</b>                     | <b>11,078</b> | <b>24,928</b>                | <b>35,419</b> |
| Provision for income taxes   | 3,193                             | 2,846         | 7,207                        | 13,512        |
| <b>NET INCOME</b>  | <b>8,352</b>                      | <b>8,232</b>  | <b>17,721</b>                | <b>21,907</b> |
| <b>OTHER COMPREHENSIVE INCOME</b>  |                                   |               |                              |               |
| Change in unrealized gains/(losses) on securities, net of reclassifications<br>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<br>Stock | Additional<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income/(Loss) | Treasury<br>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<br>Stock | Additional<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income/(Loss) | Treasury<br>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<br>June 30, |                  |
|---|------------------------------|------------------|
|   | 2017                         | 2016             |
|   | (Unaudited)                  |                  |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |                              |                  |
| 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 )         |
| <b>NET CASH FROM OPERATING ACTIVITIES</b>   | <b>17,019</b>                | <b>11,910</b>    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |                              |                  |
| 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 )           |
| <b>NET CASH FROM INVESTING ACTIVITIES</b>   | <b>(126 )</b>                | <b>1,558</b>     |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>  |                              |                  |
| 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 )         |
| <b>NET CASH FROM FINANCING ACTIVITIES</b>   | <b>(36,526 )</b>             | <b>(46,725 )</b> |
| <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>  | <b>(19,633 )</b>             | <b>(33,257 )</b> |
| <b>CASH AND DUE FROM BANKS, BEGINNING OF PERIOD</b>                                   | <b>75,012</b>                | <b>88,695</b>    |
| <b>CASH AND DUE FROM BANKS, END OF PERIOD</b>   | <b>\$55,379</b>              | <b>\$55,438</b>  |
| 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<br>Principal | Recorded<br>Investment | June 30, 2017                                   |                               | Interest<br>Income<br>Recognized | Cash Basis<br>Interest<br>Recognized |          |
|-------------------------------------|---------------------|------------------------|---|-------------------------------|----------------------------------|--------------------------------------|----------|
|                                     |                     |                        | Allowance<br>for<br>Loan<br>Losses<br>Allocated | Average<br>Loan<br>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                  | —                   | —                      | —   | —                             | —                                | —                                    | —        |
| <b>TOTAL</b>                        | <b>\$ 7,572</b>     | <b>\$ 7,371</b>        | <b>\$ 407</b>                                   | <b>\$ 7,610</b>               | <b>\$</b>                        | <b>—\$</b>                           | <b>—</b> |





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|                                     | December 31,<br>2016 |                        |                                    |                                   |                                  |  |   |
|-------------------------------------|----------------------|------------------------|------------------------------------|-----------------------------------|----------------------------------|--|---|
|                                     | Unpaid<br>Principal  | Recorded<br>Investment | Allowance<br>for<br>Loan<br>Losses | Average<br>Recorded<br>Investment | Interest<br>Income<br>Recognized | Cash Basis<br>Interest<br>Income<br>Recognized |   |
| (Dollar amounts in thousands)       | Balance              | Investment             | Allocation                         | Investment                        | Recognized                       | Recognized                                     |   |
| With no related allowance recorded: |                      |                        |                                    |                                   |                                  |  |   |
| Commercial                          |                      |                        |                                    |                                   |                                  |  |   |
| Commercial & Industrial             | \$ 1,181             | \$ 1,181               | \$—                                | \$ 981                            | \$                               | —\$  | — |
| Farmland                            | 826                  | 826                    | —                                  | 770                               | —                                | —  |   |
| Non Farm, Non Residential           | 3,368                | 2,996                  | —                                  | 3,096                             | —                                | —  |   |
| Agriculture                         | 622                  | 487                    | —                                  | 351                               | —                                | —  |   |
| All Other Commercial                | 1,367                | 1,367                  | —                                  | 1,477                             | —                                | —  |   |
| Residential                         |                      |                        |                                    |                                   |                                  |  |   |
| First Liens                         | 25                   | 25                     | —                                  | 27                                | —                                | —  |   |
| Home Equity                         | —                    | —                      | —                                  | —                                 | —                                | —  |   |
| Junior Liens                        | —                    | —                      | —                                  | —                                 | —                                | —  |   |
| Multifamily                         | —                    | —                      | —                                  | —                                 | —                                | —  |   |
| All Other Residential               | —                    | —                      | —                                  | —                                 | —                                | —  |   |
| Consumer                            |                      |                        |                                    |                                   |                                  |  |   |
| Motor Vehicle                       | —                    | —                      | —                                  | —                                 | —                                | —  |   |
| All Other Consumer                  | —                    | —                      | —                                  | —                                 | —                                | —  |   |
| With an allowance recorded:         |                      |                        |                                    |                                   |                                  |  |   |
| Commercial                          |                      |                        |                                    |                                   |                                  |  |   |
| Commercial & Industrial             | 537                  | 537                    | 36                                 | 819                               | —                                | —  |   |
| Farmland                            | —                    | —                      | —                                  | —                                 | —                                | —  |   |
| Non Farm, Non Residential           | 657                  | 657                    | 206                                | 1,016                             | —                                | —  |   |
| Agriculture                         | —                    | —                      | —                                  | 114                               | —                                | —  |   |
| All Other Commercial                | —                    | —                      | —                                  | 45                                | —                                | —  |   |
| Residential                         |                      |                        |                                    |                                   |                                  |  |   |
| First Liens                         | 524                  | 524                    | 89                                 | 647                               | —                                | —  |   |
| Home Equity                         | —                    | —                      | —                                  | —                                 | —                                | —  |   |
| Junior Liens                        | —                    | —                      | —                                  | —                                 | —                                | —  |   |
| Multifamily                         | —                    | —                      | —                                  | —                                 | —                                | —  |   |
| All Other Residential               | —                    | —                      | —                                  | —                                 | —                                | —  |   |
| Consumer                            |                      |                        |                                    |                                   |                                  |  |   |
| Motor Vehicle                       | —                    | —                      | —                                  | —                                 | —                                | —  |   |
| All Other Consumer                  | —                    | —                      | —                                  | —                                 | —                                | —  |   |
| TOTAL                               | \$ 9,107             | \$ 8,600               | \$ 331                             | \$ 9,343                          | \$                               | —\$  | — |

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|                                     | Three Months Ended<br>June 30, 2017 |                    |                                  | Six Months Ended<br>June 30, 2017 |                    |                                  |
|-------------------------------------|-------------------------------------|--------------------|----------------------------------|-----------------------------------|--------------------|----------------------------------|
|                                     | Average<br>Recorded                 | Interest<br>Income | Cash Basis<br>Interest<br>Income | Average<br>Recorded               | Interest<br>Income | Cash Basis<br>Interest<br>Income |
| (Dollar amounts in thousands)       | Investment                          | Recognized         | Recognized                       | Investment                        | Recognized         | Recognized                       |
| With no related allowance recorded: |                                     |                    |                                  |                                   |                    |                                  |
| Commercial & Industrial             | \$1,029                             | \$                 | —\$                              | —\$1,079                          | \$                 | —                                |
| Farmland                            | 465                                 | —                  | —                                | 585                               | —                  | —                                |
| Non Farm, Non Residential           | 2,893                               | —                  | —                                | 2,927                             | —                  | —                                |
| Agriculture                         | 185                                 | —                  | —                                | 286                               | —                  | —                                |
| All Other Commercial                | 1,325                               | —                  | —                                | 1,339                             | —                  | —                                |
| Residential                         |                                     |                    |                                  |                                   |                    |                                  |
| First Liens                         | 24                                  | —                  | —                                | 24                                | —                  | —                                |
| Home Equity                         | —                                   | —                  | —                                | —                                 | —                  | —                                |
| Junior Liens                        | —                                   | —                  | —                                | —                                 | —                  | —                                |
| Multifamily                         | —                                   | —                  | —                                | —                                 | —                  | —                                |
| All Other Residential               | —                                   | —                  | —                                | —                                 | —                  | —                                |
| Consumer                            |                                     |                    |                                  |                                   |                    |                                  |
| Motor Vehicle                       | —                                   | —                  | —                                | —                                 | —                  | —                                |
| All Other Consumer                  | —                                   | —                  | —                                | —                                 | —                  | —                                |
| With an allowance recorded:         |                                     |                    |                                  |                                   |                    |                                  |
| Commercial                          |                                     |                    |                                  |                                   |                    |                                  |
| Commercial & Industrial             | 519                                 | —                  | —                                | 525                               | —                  | —                                |
| Farmland                            | —                                   | —                  | —                                | —                                 | —                  | —                                |
| Non Farm, Non Residential           | —                                   | —                  | —                                | 219                               | —                  | —                                |
| Agriculture                         | 185                                 | —                  | —                                | 123                               | —                  | —                                |
| All Other Commercial                | —                                   | —                  | —                                | —                                 | —                  | —                                |
| Residential                         |                                     |                    |                                  |                                   |                    |                                  |
| First Liens                         | 493                                 | —                  | —                                | 503                               | —                  | —                                |
| Home Equity                         | —                                   | —                  | —                                | —                                 | —                  | —                                |
| Junior Liens                        | —                                   | —                  | —                                | —                                 | —                  | —                                |
| Multifamily                         | —                                   | —                  | —                                | —                                 | —                  | —                                |
| All Other Residential               | —                                   | —                  | —                                | —                                 | —                  | —                                |
| Consumer                            |                                     |                    |                                  |                                   |                    |                                  |
| Motor Vehicle                       | —                                   | —                  | —                                | —                                 | —                  | —                                |
| All Other Consumer                  | —                                   | —                  | —                                | —                                 | —                  | —                                |
| TOTAL                               | \$7,118                             | \$                 | —\$                              | —\$7,610                          | \$                 | —                                |

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|                                     | Three Months Ended<br>June 30, 2016 |                    |                                  | Six Months Ended<br>June 30, 2016 |                    |                                  |
|-------------------------------------|-------------------------------------|--------------------|----------------------------------|-----------------------------------|--------------------|----------------------------------|
|                                     | Average<br>Recorded                 | Interest<br>Income | Cash Basis<br>Interest<br>Income | Average<br>Recorded               | Interest<br>Income | Cash Basis<br>Interest<br>Income |
| (Dollar amounts in thousands)       | Investment                          | Recognized         | Recognized                       | Investment                        | Recognized         | Recognized                       |
| With no related allowance recorded: |                                     |                    |                                  |                                   |                    |                                  |
| Commercial                          |                                     |                    |                                  |                                   |                    |                                  |
| Commercial & Industrial             | \$650                               | \$                 | —\$                              | —\$841                            | \$                 | —\$                              |
| Farmland                            | 733                                 | —                  | —                                | 488                               | —                  | —                                |
| Non Farm, Non Residential           | 3,119                               | —                  | —                                | 3,147                             | —                  | —                                |
| Agriculture                         | 318                                 | —                  | —                                | 212                               | —                  | —                                |
| All Other Commercial                | 1,431                               | —                  | —                                | 1,540                             | —                  | —                                |
| Residential                         |                                     |                    |                                  |                                   |                    |                                  |
| First Liens                         | 28                                  | —                  | —                                | 28                                | —                  | —                                |
| Home Equity                         | —                                   | —                  | —                                | —                                 | —                  | —                                |
| Junior Liens                        | —                                   | —                  | —                                | —                                 | —                  | —                                |
| Multifamily                         | —                                   | —                  | —                                | —                                 | —                  | —                                |
| All Other Residential               | —                                   | —                  | —                                | —                                 | —                  | —                                |
| Consumer                            |                                     |                    |                                  |                                   |                    |                                  |
| Motor Vehicle                       | —                                   | —                  | —                                | —                                 | —                  | —                                |
| All Other Consumer                  | —                                   | —                  | —                                | —                                 | —                  | —                                |
| With an allowance recorded:         |                                     |                    |                                  |                                   |                    |                                  |
| Commercial                          |                                     |                    |                                  |                                   |                    |                                  |
| Commercial & Industrial             | 797                                 | —                  | —                                | 864                               | —                  | —                                |
| Farmland                            | —                                   | —                  | —                                | —                                 | —                  | —                                |
| Non Farm, Non Residential           | 1,153                               | —                  | —                                | 1,240                             | —                  | —                                |
| Agriculture                         | —                                   | —                  | —                                | —                                 | —                  | —                                |
| All Other Commercial                | —                                   | —                  | —                                | 75                                | —                  | —                                |
| Residential                         |                                     |                    |                                  |                                   |                    |                                  |
| First Liens                         | 646                                 | —                  | —                                | 722                               | —                  | —                                |
| Home Equity                         | —                                   | —                  | —                                | —                                 | —                  | —                                |
| Junior Liens                        | —                                   | —                  | —                                | —                                 | —                  | —                                |
| Multifamily                         | —                                   | —                  | —                                | —                                 | —                  | —                                |
| All Other Residential               | —                                   | —                  | —                                | —                                 | —                  | —                                |
| Consumer                            |                                     |                    |                                  |                                   |                    |                                  |
| Motor Vehicle                       | —                                   | —                  | —                                | —                                 | —                  | —                                |
| All Other Consumer                  | —                                   | —                  | —                                | —                                 | —                  | —                                |
| TOTAL                               | \$8,875                             | \$                 | —\$                              | —\$9,157                          | \$                 | —\$                              |



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

|                               | June 30, 2017 |          |            |            |
|-------------------------------|---------------|----------|------------|------------|
|                               | Loans         |          |            |            |
|                               | Past          |          |            |            |
|                               | Due           | Troubled |            | Nonaccrual |
|                               | Over          | Debt     |            | Excluding  |
|                               | 90 Day        |          |            |            |
|                               | Still         |          |            |            |
| (Dollar amounts in thousands) | Accruing      | Accruing | Nonaccrual | TDR        |
| Commercial                    |               |          |            |            |
| Commercial & Industrial       | \$—           | \$3      | \$ 327     | \$ 1,928   |
| Farmland                      | 20            | —        | —          | 1,032      |
| Non Farm, Non Residential     | —             | 2        | 2,730      | 371        |
| Agriculture                   | 64            | —        | —          | 578        |
| All Other Commercial          | —             | —        | —          | 1,330      |
| Residential                   |               |          |            |            |
| First Liens                   | 748           | 3,464    | 806        | 4,573      |
| Home Equity                   | 14            | —        | —          | 272        |
| Junior Liens                  | 28            | —        | —          | 160        |
| Multifamily                   | —             | —        | —          | —          |
| All Other Residential         | 13            | —        | —          | 86         |
| Consumer                      |               |          |            |            |
| Motor Vehicle                 | 298           | 16       | —          | 233        |
| All Other Consumer            | —             | 166      | 540        | 692        |
| TOTAL                         | \$1,185       | \$3,651  | \$ 4,403   | \$ 11,255  |

Subsequent to June 30, 2017, the Corporation place a \$2.8 million loan on nonaccrual that is not included in the table above.

|                               | December 31, 2016 |          |            |            |
|-------------------------------|-------------------|----------|------------|------------|
|                               | Loans             |          |            |            |
|                               | Past              |          |            |            |
|                               | Due               | Troubled |            | Nonaccrual |
|                               | Over              | Debt     |            | Excluding  |
|                               | 90                |          |            |            |
|                               | Day               |          |            |            |
|                               | Still             |          |            |            |
| (Dollar amounts in thousands) | Accruing          | Accruing | Nonaccrual | TDR        |
| Commercial                    |                   |          |            |            |
| Commercial & Industrial       | \$45              | \$3      | \$ 383     | \$ 2,405   |
| Farmland                      | —                 | —        | —          | 978        |
| Non Farm, Non Residential     | —                 | 60       | 2,941      | 1,027      |
| Agriculture                   | —                 | —        | —          | 744        |
| All Other Commercial          | —                 | —        | —          | 1,380      |
| Residential                   |                   |          |            |            |
| First Liens                   | 276               | 3,525    | 995        | 5,496      |
| Home Equity                   | —                 | —        | —          | 285        |
| Junior Liens                  | 55                | —        | —          | 202        |
| Multifamily                   | —                 | —        | —          | —          |
| All Other Residential         | —                 | —        | —          | 94         |

|                    |       |         |          |           |
|--------------------|-------|---------|----------|-----------|
| Consumer           |       |         |          |           |
| Motor Vehicle      | 293   | 60      | —        | 140       |
| All Other Consumer | —     | 150     | 517      | 741       |
| TOTAL              | \$669 | \$3,798 | \$ 4,836 | \$ 13,492 |

There were \$121 thousand of loans covered by loss share agreements with the FDIC included in loans past due over 90 days still on accrual at June 30, 2017 and there were \$80 thousand at December 31, 2016. There were \$66 thousand of covered loans

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included in non-accrual loans at June 30, 2017 and there were \$112 thousand at December 31, 2016. There were no covered loans at June 30, 2017 or December 31, 2016 that were deemed impaired.

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

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

| (Dollar amounts in thousands) | June 30, 2017  |                |                            |                 |                    |                    |
|-------------------------------|----------------|----------------|----------------------------|-----------------|--------------------|--------------------|
|                               | 30-59<br>Days  | 60-89<br>Days  | Greater<br>than 90<br>days | Total           | Current            | Total              |
|                               | Past<br>Due    | Past<br>Due    | Past<br>Due                | Past<br>Due     |                    |                    |
| <b>Commercial</b>             |                |                |                            |                 |                    |                    |
| Commercial & Industrial       | \$605          | \$77           | \$938                      | \$1,620         | \$461,790          | \$463,410          |
| Farmland                      | 678            | 2,309          | 950                        | 3,937           | 105,852            | 109,789            |
| Non Farm, Non Residential     | 152            | —              | —                          | 152             | 203,835            | 203,987            |
| Agriculture                   | 287            | —              | 434                        | 721             | 147,025            | 147,746            |
| All Other Commercial          | 1              | —              | 19                         | 20              | 188,650            | 188,670            |
| <b>Residential</b>            |                |                |                            |                 |                    |                    |
| First Liens                   | 725            | 910            | 1,542                      | 3,177           | 257,853            | 261,030            |
| Home Equity                   | 93             | 46             | 25                         | 164             | 35,265             | 35,429             |
| Junior Liens                  | 235            | 145            | 100                        | 480             | 37,730             | 38,210             |
| Multifamily                   | —              | —              | —                          | —               | 83,053             | 83,053             |
| All Other Residential         | —              | —              | 13                         | 13              | 13,258             | 13,271             |
| <b>Consumer</b>               |                |                |                            |                 |                    |                    |
| Motor Vehicle                 | 2,639          | 525            | 311                        | 3,475           | 289,787            | 293,262            |
| All Other Consumer            | 83             | 7              | 1                          | 91              | 24,400             | 24,491             |
| <b>TOTAL</b>                  | <b>\$5,498</b> | <b>\$4,019</b> | <b>\$4,333</b>             | <b>\$13,850</b> | <b>\$1,848,498</b> | <b>\$1,862,348</b> |

| (Dollar amounts in thousands) | December 31, 2016 |               |                            |             |           |           |
|-------------------------------|-------------------|---------------|----------------------------|-------------|-----------|-----------|
|                               | 30-59<br>Days     | 60-89<br>Days | Greater<br>than 90<br>days | Total       | Current   | Total     |
|                               | Past<br>Due       | Past<br>Due   | Past<br>Due                | Past<br>Due |           |           |
| <b>Commercial</b>             |                   |               |                            |             |           |           |
| Commercial & Industrial       | \$370             | \$114         | \$1,199                    | \$1,683     | \$474,406 | \$476,089 |
| Farmland                      | 235               | 22            | 46                         | 303         | 110,897   | 111,200   |
| Non Farm, Non Residential     | 153               | —             | 215                        | 368         | 195,120   | 195,488   |
| Agriculture                   | 246               | —             | 467                        | 713         | 151,059   | 151,772   |
| All Other Commercial          | 15                | —             | —                          | 15          | 178,171   | 178,186   |
| <b>Residential</b>            |                   |               |                            |             |           |           |
| First Liens                   | 3,862             | 954           | 1,516                      | 6,332       | 264,446   | 270,778   |
| Home Equity                   | 186               | 64            | 27                         | 277         | 35,782    | 36,059    |
| Junior Liens                  | 271               | —             | 224                        | 495         | 36,912    | 37,407    |
| Multifamily                   | —                 | —             | —                          | —           | 67,799    | 67,799    |
| All Other Residential         | 42                | 12            | —                          | 54          | 12,982    | 13,036    |
| <b>Consumer</b>               |                   |               |                            |             |           |           |

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|                    |         |         |         |          |             |             |
|--------------------|---------|---------|---------|----------|-------------|-------------|
| Motor Vehicle      | 4,048   | 732     | 313     | 5,093    | 277,604     | 282,697     |
| All Other Consumer | 143     | 22      | 3       | 168      | 24,361      | 24,529      |
| TOTAL              | \$9,571 | \$1,920 | \$4,010 | \$15,501 | \$1,829,539 | \$1,845,040 |



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During the three and six months ended June 30, 2017 and 2016, the terms of certain loans were modified as troubled debt restructurings (TDRs). The following tables present the activity for TDR's.

|                               | 2017       |             |          |         |
|-------------------------------|------------|-------------|----------|---------|
| (Dollar amounts in thousands) | Commercial | Residential | Consumer | Total   |
| April 1,                      | \$ 3,302   | \$4,068     | \$ 788   | \$8,158 |
| Added                         | —          | 227         | 41       | 268     |
| Charged Off                   | —          | (7 )        | (48 )    | (55 )   |
| Payments                      | (241 )     | (90 )       | (56 )    | (387 )  |
| June 30,                      | \$ 3,061   | \$4,198     | \$ 725   | \$7,984 |

|                               | 2017       |             |          |         |
|-------------------------------|------------|-------------|----------|---------|
| (Dollar amounts in thousands) | Commercial | Residential | Consumer | Total   |
| January 1,                    | \$ 3,386   | \$4,447     | \$ 732   | \$8,565 |
| Added                         | —          | 227         | 209      | 436     |
| Charged Off                   | —          | (40 )       | (71 )    | (111 )  |
| Payments                      | (325 )     | (436 )      | (145 )   | (906 )  |
| June 30,                      | \$ 3,061   | \$4,198     | \$ 725   | \$7,984 |

|                               | 2016       |             |          |        |
|-------------------------------|------------|-------------|----------|--------|
| (Dollar amounts in thousands) | Commercial | Residential | Consumer | Total  |
| April 1,                      | 3,529      | 5,285       | 695      | 9,509  |
| Added                         | —          | 43          | 62       | 105    |
| Charged Off                   | —          | (125 )      | (6 )     | (131 ) |
| Payments                      | (76 )      | (170 )      | (82 )    | (328 ) |
| June 30,                      | 3,453      | 5,033       | 669      | 9,155  |

|                               | 2016       |             |          |        |
|-------------------------------|------------|-------------|----------|--------|
| (Dollar amounts in thousands) | Commercial | Residential | Consumer | Total  |
| January 1,                    | 3,584      | 5,593       | 683      | 9,860  |
| Added                         | —          | 123         | 150      | 273    |
| Charged Off                   | —          | (181 )      | (26 )    | (207 ) |
| Payments                      | (131 )     | (502 )      | (138 )   | (771 ) |
| June 30,                      | 3,453      | 5,033       | 669      | 9,155  |

Modification of the terms of such loans typically include one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; or a permanent reduction of the recorded investment in the loan. No modification in 2017 or 2016 resulted in the permanent reduction of the recorded investment in the loan.

Modifications involving a reduction of the stated interest rate of the loan were for periods ranging from twelve months to five years. Modifications involving an extension of the maturity date were for periods ranging from twelve months to ten years. Troubled debt restructurings during the three and six months ended June 30, 2017 and 2016 did not result in any material charge-offs or additional provision expense.

The Corporation has no allocations as of June 30, 2017 and has allocated \$7 thousand of specific reserves to customers whose loan terms have been modified in troubled debt restructurings at June 30, 2016. The Corporation has not committed to lend additional amounts as of June 30, 2017 and 2016 to customers with outstanding loans that are classified as troubled debt restructurings. None of the charge-offs during the three and six months ended June 30, 2017 and 2016 were of restructurings that had occurred in the previous 12 months.



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## Credit Quality Indicators:

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

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

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

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

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

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans. Loans listed as not rated are either less than \$100 thousand or are included in groups of homogeneous loans. As of June 30, 2017 and December 31, 2016, and based on the most recent analysis performed, the risk category of loans by class of loans are as follows:

June 30, 2017

| (Dollar amounts in thousands) | Pass      | Special<br>Mention | Substandard | Doubtful | Not<br>Rated | Total     |
|-------------------------------|-----------|--------------------|-------------|----------|--------------|-----------|
| <b>Commercial</b>             |           |                    |             |          |              |           |
| Commercial & Industrial       | \$423,394 | \$9,541            | \$ 21,668   | \$ 339   | \$7,123      | \$462,065 |
| Farmland                      | 89,607    | 9,108              | 9,511       | —        | 11           | 108,237   |
| Non Farm, Non Residential     | 185,767   | 2,924              | 14,858      | —        | —            | 203,549   |
| Agriculture                   | 117,685   | 12,637             | 15,358      | —        | 384          | 146,064   |
| All Other Commercial          | 177,635   | 372                | 7,869       | —        | 1,867        | 187,743   |
| <b>Residential</b>            |           |                    |             |          |              |           |
| First Liens                   | 44,650    | 1,613              | 3,909       | 13       | 210,014      | 260,199   |
| Home Equity                   | 375       | —                  | 89          | —        | 34,902       | 35,366    |
| Junior Liens                  | 1,750     | 81                 | 328         | 101      | 35,869       | 38,129    |
| Multifamily                   | 82,793    | —                  | —           | —        | 101          | 82,894    |
| All Other Residential         | —         | —                  | 31          | —        | 13,208       | 13,239    |
| <b>Consumer</b>               |           |                    |             |          |              |           |
| Motor Vehicle                 | —         | —                  | 435         | —        | 291,716      | 292,151   |
| All Other Consumer            | —         | —                  | 34          | —        | 24,357       | 24,391    |

|       |             |          |          |       |           |             |
|-------|-------------|----------|----------|-------|-----------|-------------|
| TOTAL | \$1,123,656 | \$36,276 | \$74,090 | \$453 | \$619,552 | \$1,854,027 |
|-------|-------------|----------|----------|-------|-----------|-------------|

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| (Dollar amounts in thousands) | December 31, 2016 |                    |             |          |              | Total       |
|-------------------------------|-------------------|--------------------|-------------|----------|--------------|-------------|
|                               | Pass              | Special<br>Mention | Substandard | Doubtful | Not<br>Rated |             |
| Commercial                    |                   |                    |             |          |              |             |
| Commercial & Industrial       | \$427,262         | \$16,286           | \$ 25,177   | \$ 449   | \$5,730      | \$474,904   |
| Farmland                      | 95,115            | 8,300              | 5,238       | —        | 532          | 109,185     |
| Non Farm, Non Residential     | 172,739           | 5,745              | 16,601      | —        | —            | 195,085     |
| Agriculture                   | 121,983           | 13,885             | 12,301      | —        | 1,366        | 149,535     |
| All Other Commercial          | 163,492           | 596                | 10,058      | 76       | 3,251        | 177,473     |
| Residential                   |                   |                    |             |          |              |             |
| First Liens                   | 43,674            | 1,541              | 4,466       | 18       | 220,249      | 269,948     |
| Home Equity                   | 363               | —                  | 86          | —        | 35,554       | 36,003      |
| Junior Liens                  | 1,826             | 85                 | 401         | 26       | 34,977       | 37,315      |
| Multifamily                   | 66,133            | 1,430              | 15          | —        | 65           | 67,643      |
| All Other Residential         | —                 | —                  | —           | —        | 13,002       | 13,002      |
| Consumer                      |                   |                    |             |          |              |             |
| Motor Vehicle                 | —                 | —                  | 331         | —        | 281,134      | 281,465     |
| All Other Consumer            | —                 | —                  | 25          | —        | 24,391       | 24,416      |
| TOTAL                         | \$1,092,587       | \$47,868           | \$ 74,699   | \$ 569   | \$620,251    | \$1,835,974 |

## 3. Securities

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

| (Dollar amounts in thousands)            | June 30, 2017     |                     |                      |               |
|--|-------------------|---------------------|----------------------|---------------|
|  | Amortized<br>Cost | Unrealized<br>Gains | Unrealized<br>Losses | Fair<br>Value |
| U.S. Government agencies                 | \$14,898          | \$ 50               | \$ (141 )            | \$14,807      |
| Mortgage Backed Securities - residential | 239,368           | 4,011               | (819 )               | 242,560       |
| Mortgage Backed Securities - commercial  | 2                 | —                   | —                    | 2             |
| Collateralized mortgage obligations      | 353,334           | 1,811               | (3,596 )             | 351,549       |
| State and municipal obligations          | 223,797           | 7,023               | (444 )               | 230,376       |
| Collateralized debt obligations          | 8,953             | 3,330               | —                    | 12,283        |
| TOTAL                                    | \$840,352         | \$ 16,225           | \$ (5,000 )          | \$851,577     |

| (Dollar amounts in thousands)          | December 31, 2016 |                     |                      |               |
|--|-------------------|---------------------|----------------------|---------------|
|  | Amortized<br>Cost | Unrealized<br>Gains | Unrealized<br>Losses | Fair<br>Value |
| U.S. Government agencies               | \$13,594          | \$ 32               | \$ (377 )            | \$13,249      |
| Mortgage Backed Securities-residential | 261,878           | 3,200               | (4,073 )             | 261,005       |
| Mortgage Backed Securities-commercial  | 4                 | —                   | —                    | 4             |
| Collateralized mortgage obligations    | 353,499           | 1,021               | (6,344 )             | 348,176       |
| State and municipal obligations        | 217,365           | 3,954               | (2,396 )             | 218,923       |
| Collateralized debt obligations        | 9,181             | 4,411               | (1,224 )             | 12,368        |
| TOTAL                                  | \$855,521         | \$ 12,618           | \$ (14,414 )         | \$853,725     |



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Contractual maturities of debt securities at June 30, 2017 were as follows. Securities not due at a single maturity or with no maturity date, primarily mortgage-backed and equity securities are shown separately.

| (Dollar amounts in thousands)                                      | Available-for-Sale |            |
|--|--------------------|------------|
|  | Amortized Cost     | Fair Value |
| Due in one year or less  | \$6,173            | \$6,222    |
| Due after one but within five years                                | 46,878             | 48,312     |
| Due after five but within ten years                                | 83,435             | 86,898     |
| Due after ten years  | 111,162            | 116,034    |
| Mortgage-backed securities and collateralized mortgage obligations | 247,648            | 257,466    |
| TOTAL  | 592,704            | 594,111    |
|  | \$840,352          | \$851,577  |

There were \$15 thousand and \$17 thousand in gross gains and no losses from investment sales/calls realized by the Corporation for the three and six months ended June 30, 2017. For the three and six months ended June 30, 2016 there were \$10 thousand and \$13 thousand in gross gains and no losses on sales of investment securities.

The following tables show the securities' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in continuous unrealized loss position, at June 30, 2017 and December 31, 2016.

| (Dollar amounts in thousands)            | June 30, 2017       |                   |                     |                   |            |                   |
|--|---------------------|-------------------|---------------------|-------------------|------------|-------------------|
|  | Less Than 12 Months |                   | More Than 12 Months |                   | Total      |                   |
|  | Fair Value          | Unrealized Losses | Fair Value          | Unrealized Losses | Fair Value | Unrealized Losses |
| U.S. Government agencies                 | \$5,777             | \$(141)           | \$—                 | \$—               | \$5,777    | \$(141)           |
| Mortgage Backed Securities - Residential | \$70,455            | \$(819)           | \$94                | \$—               | \$70,549   | \$(819)           |
| Mortgage Backed Securities - Commercial  | 1                   | —                 | —                   | —                 | 1          | —                 |
| Collateralized mortgage obligations      | 104,720             | (1,489)           | 73,343              | (2,107)           | 178,063    | (3,596)           |
| State and municipal obligations          | 23,345              | (444)             | —                   | —                 | 23,345     | (444)             |
| Total temporarily impaired securities    | \$204,298           | \$(2,893)         | \$73,437            | \$(2,107)         | \$277,735  | \$(5,000)         |

| (Dollar amounts in thousands)                   | December 31, 2016   |                   |                     |                   |            |                   |
|---|---------------------|-------------------|---------------------|-------------------|------------|-------------------|
|   | Less Than 12 Months |                   | More Than 12 Months |                   | Total      |                   |
|   | Fair Value          | Unrealized Losses | Fair Value          | Unrealized Losses | Fair Value | Unrealized Losses |
| US Government entity mortgage-backed securities | \$12,224            | \$(377)           | \$—                 | \$—               | \$12,224   | \$(377)           |
| Mortgage Backed Securities - Residential        | \$202,248           | \$(4,072)         | \$152               | \$(1)             | \$202,400  | \$(4,073)         |
| Collateralized mortgage obligations             | 169,717             | (3,086)           | 79,999              | (3,258)           | 249,716    | (6,344)           |
| State and municipal obligations                 | 72,852              | (2,396)           | —                   | —                 | 72,852     | (2,396)           |
| Collateralized Debt Obligations                 | 7,561               | (1,224)           | —                   | —                 | 7,561      | (1,224)           |
| Total temporarily impaired securities           | \$464,602           | \$(11,155)        | \$80,151            | \$(3,259)         | \$544,753  | \$(14,414)        |

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

Investment securities are generally evaluated for OTTI under FASB ASC 320, Investments - Debt and Equity Securities. However, certain purchased beneficial interests, including non-agency mortgage-backed securities, asset-backed securities, and collateralized debt obligations, that had credit ratings at the time of purchase of below AA are evaluated using the model outlined in FASB ASC 325-40, Beneficial Interests in Securitized Financial Assets.



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

Gross unrealized losses on investment securities were \$5.0 million as of June 30, 2017 and \$14.4 million as of December 31, 2016. A majority of these losses represent negative adjustments to market value relative to the interest rate environment reflecting the increase in market rates and not losses related to the creditworthiness of the issuer. Based upon our review of the issuers, we do not believe these investments to be other than temporarily impaired. Management does not intend to sell these securities and it is not more likely than not that we will be required to sell them before their anticipated recovery.

There are three collateralized debt obligations securities with previously recorded OTTI but there was no additional OTTI recorded in 2017 or 2016. During the quarter ended March 31, 2017, one of the obligations was partially called, resulting in the elimination of the OTTI associated with that obligation. A cash recovery of \$3.1 million was received and recognized in non-interest income for the period as the book value of the security was previously written down to zero.

Management has consistently used Standard & Poors pricing to value these investments. There are a number of other pricing sources available to determine fair value for these investments. These sources utilize a variety of methods to determine fair value. The result is a wide range of estimates of fair value for these securities. The Standard & Poors pricing ranges from 61.8 to 65.41 while Moody Investor Service pricing ranges from 18.07 to 48.11, with others falling somewhere in between. We recognize that the Standard & Poors pricing utilized is an estimate, but have been consistent in using this source and its estimate of fair value.

The table below presents a rollforward of the credit losses recognized in earnings for the three and six month periods ended June 30, 2017 and 2016:

| (Dollar amounts in thousands)                                 | Three Months           |          | Six Months Ended |          |
|---|------------------------|----------|------------------|----------|
|   | Ended June 30,<br>2017 | 2016     | June 30,<br>2017 | 2016     |
| Beginning balance   | \$7,132                | \$13,995 | \$13,974         | \$13,995 |
| Increases to the amount related to the credit                 |                        |          |                  |          |
| Loss for which other-than-temporary was previously recognized | —                      | —        | —                | —        |
| Reductions for increases in cash flows collected              | —                      | (21 )    |                  | (21 )    |
| Reductions for securities called during the period            | —                      | —        | (6,842 )         | —        |
| Ending balance  | \$7,132                | \$13,974 | \$7,132          | \$13,974 |

## 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.

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

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

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

|  | June 30, 2017   |           |               |
|--|---|-----------|---------------|
|  | Fair Value Measurements Using Significant Unobservable Inputs (Level 3) |           |               |
| (Dollar amounts in thousands)          | Level 1   | Level 2   | Level 3 Total |
| U.S. Government agencies               | \$—   | \$14,807  | \$14,807      |
| Mortgage Backed Securities-residential | —   | 242,560   | 242,560       |
| Mortgage Backed Securities-commercial  | —   | 2         | 2             |
| Collateralized mortgage obligations    | —   | 351,549   | 351,549       |
| State and municipal                    | —   | 226,696   | 230,376       |
| Collateralized debt obligations        | —   | —         | 12,283        |
| TOTAL                                  | \$—   | \$835,614 | \$851,577     |
| Derivative Assets                      | 526   |           |               |
| Derivative Liabilities                 | (526)   |           |               |
|  | December 31, 2016   |           |               |
|  | Fair Value Measurements Using Significant Unobservable Inputs (Level 3) |           |               |
| (Dollar amounts in thousands)          | Level 1   | Level 2   | Level 3 Total |
| U.S. Government agencies               | \$—   | \$13,249  | \$13,249      |
| Mortgage Backed Securities-residential | —   | 261,005   | 261,005       |
| Mortgage Backed Securities-commercial  | —   | 4         | 4             |
| Collateralized mortgage obligations    | —   | 348,176   | 348,176       |
| State and municipal                    | —   | 214,713   | 218,923       |
| Collateralized debt obligations        | —   | —         | 12,368        |
| TOTAL                                  | \$—   | \$837,147 | \$853,725     |
| Derivative Assets                      | 653   |           |               |
| Derivative Liabilities                 | (653)   |           |               |

There were no transfers between Level 1 and Level 2 during 2017 and 2016.

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The tables below presents a reconciliation and income statement classification of gains and losses for all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three and six months ended June 30, 2017 and the year ended December 31, 2016.

|   | Fair Value Measurements Using<br>Significant Unobservable Inputs<br>(Level 3) |                                       |           |
|---|---|---------------------------------------|-----------|
|   | Three Months Ended June 30,<br>2017   |                                       |           |
|   | State<br>and<br>municipal<br>obligations                                      | Collateralized<br>debt<br>obligations | Total     |
| Beginning balance, April 1  | \$3,680   | \$ 11,993                             | \$ 15,673 |
| Total realized/unrealized gains or losses<br>Included in earnings | —   | —                                     | —         |
| Included in other comprehensive income                            | —   | 398                                   | 398       |
| Transfers   | —   | —                                     | —         |
| Settlements   | —   | (108 )                                | (108 )    |
| Ending balance, June 30   | \$3,680   | \$ 12,283                             | \$ 15,963 |

|   | Six Months Ended June 30, 2017           |                                       |           |
|---|--|---------------------------------------|-----------|
|   | State<br>and<br>municipal<br>obligations | Collateralized<br>debt<br>obligations | Total     |
| Beginning balance, January 1                                      | \$4,210                                  | \$ 12,368                             | \$ 16,578 |
| Total realized/unrealized gains or losses<br>Included in earnings | —  | —                                     | —         |
| Included in other comprehensive income                            | —  | 143                                   | 143       |
| Transfers   | —  | —                                     | —         |
| Settlements   | (530 )                                   | (228 )                                | (758 )    |
| Ending balance, June 30   | \$3,680                                  | \$ 12,283                             | \$ 15,963 |

|   | Fair Value Measurements Using<br>Significant Unobservable Inputs<br>(Level 3) |                                       |           |
|---|---|---------------------------------------|-----------|
|   | Year Ended December 31, 2016  |                                       |           |
|   | State<br>and<br>municipal<br>obligations                                      | Collateralized<br>debt<br>obligations | Total     |
| Beginning balance, January 1                                      | \$4,725   | \$ 14,875                             | \$ 19,600 |
| Total realized/unrealized gains or losses<br>Included in earnings | —   | —                                     | —         |
| Included in other comprehensive income                            | —   | (2,066 )                              | (2,066 )  |
| Purchases   | —   | —                                     | —         |
| Settlements   | (515 )  | (441 )                                | (956 )    |
| Ending balance, December 31                                       | \$4,210   | \$ 12,368                             | \$ 16,578 |



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The following table presents quantitative information about recurring and non-recurring Level 3 fair value measurements at June 30, 2017.

|                                 | Fair Value | Valuation Technique(s)           | Unobservable Input(s)                                    | Range             |
|---------------------------------|------------|----------------------------------|--|-------------------|
| State and municipal obligations | \$3,680    | Discounted cash flow             | Discount rate<br>Probability of default                  | 2.30%-5.45%<br>0% |
| Other real estate               | \$2,384    | Sales comparison/income approach | Discount rate for age of appraisal and market conditions | 5.00%-20.00%      |
| Impaired Loans                  | \$959      | Sales comparison/income approach | Discount rate for age of appraisal and market conditions | 0.00%-50.00%      |

The following table presents quantitative information about recurring and non-recurring Level 3 fair value measurements at December 31, 2016.

|                                 | Fair Value | Valuation Technique(s)           | Unobservable Input(s)                                    | Range             |
|---------------------------------|------------|----------------------------------|--|-------------------|
| State and municipal obligations | \$4,210    | Discounted cash flow             | Discount rate<br>Probability of default                  | 3.05%-5.50%<br>0% |
| Other real estate               | \$2,531    | Sales comparison/income approach | Discount rate for age of appraisal and market conditions | 5.00%-20.00%      |
| Impaired Loans                  | 1,387      | Sales comparison/income approach | Discount rate for age of appraisal and market conditions | 0.00%-50.00%      |

Impaired loans disclosed in footnote 2, which are measured for impairment using the fair value of collateral, are valued at Level 3. They are carried at a fair value of \$959 thousand, after a valuation allowance of \$407 thousand at June 30, 2017 and at a fair value of \$1.4 million, net of a valuation allowance of \$331 thousand at December 31, 2016. The impact to the provision for loan losses for the three and six months ended June 30, 2017 and for the 12 months ended December 31, 2016 was a \$179 thousand increase, a \$76 thousand increase, and a \$523 thousand decrease, respectively. Other real estate owned is valued at Level 3. Other real estate owned at June 30, 2017 with a value of \$2.4 million was reduced \$903 thousand for fair value adjustment. At June 30, 2017 other real estate owned was comprised of \$1.9 million from commercial loans and \$472 thousand from residential loans. Other real estate owned at December 31, 2016 with a value of \$2.5 million was reduced \$930 thousand for fair value adjustment. At December 31, 2016 other real estate owned was comprised of \$2.0 million from commercial loans and \$483 thousand from residential loans.

Fair value is measured based on the value of the collateral securing those loans, and is determined using several methods. Generally the fair value of real estate is determined based on appraisals by qualified licensed appraisers. Appraisals for real estate generally use three methods to derive value: cost, sales or market comparison and income approach. The cost method bases value on the cost to replace current property. The market comparison evaluates the sales price of similar properties in the same market area. The income approach considers net operating income generated by the property and the investor's required return. The final fair value is based on a reconciliation of these three approaches. If an appraisal is not available, the fair value may be determined by using a cash flow analysis, a broker's opinion of value, the net present value of future cash flows, or an observable market price from an active market. Fair value of other real estate is based upon the current appraised values of the properties as determined by qualified licensed appraisers and the Company's judgment of other relevant market conditions. Appraisals are obtained annually and reductions in value are recorded as a valuation through a charge to expense. The primary unobservable input used by management in estimating fair value are additional discounts to the appraised value to consider market conditions and the age of the appraisal, which are based on management's past experience in resolving these types of properties. These discounts range from 0% to 50%. Values for non-real estate collateral, such as business equipment, are based on appraisals performed by qualified licensed appraisers or the customers financial statements. Values for

non real estate collateral use much higher discounts than real estate collateral. Other real estate and impaired loans carried at fair value are primarily comprised of smaller balance properties.



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The following tables presents loans identified as impaired by class of loans, and carried at fair value on a non-recurring basis, as of June 30, 2017 and December 31, 2016, which are all considered Level 3.

| (Dollar amounts in thousands) | June 30, 2017  |                           |            |
|-------------------------------|----------------|---------------------------|------------|
|                               | Carrying Value | Allowance                 |            |
|                               |                | for Loan Losses Allocated | Fair Value |
| Commercial                    |                |                           |            |
| Commercial & Industrial       | \$513          | \$ 154                    | \$ 359     |
| Farmland                      | —              | —                         | —          |
| Non Farm, Non Residential     | —              | —                         | —          |
| Agriculture                   | 370            | 205                       | 165        |
| All Other Commercial          | —              | —                         | —          |
| Residential                   |                |                           |            |
| First Liens                   | 483            | 48                        | 435        |
| Home Equity                   | —              | —                         | —          |
| Junior Liens                  | —              | —                         | —          |
| Multifamily                   | —              | —                         | —          |
| All Other Residential         | —              | —                         | —          |
| Consumer                      |                |                           |            |
| Motor Vehicle                 | —              | —                         | —          |
| All Other Consumer            | —              | —                         | —          |
| TOTAL                         | \$1,366        | \$ 407                    | \$ 959     |

| (Dollar amounts in thousands) | December 31, 2016 |                           |            |
|-------------------------------|-------------------|---------------------------|------------|
|                               | Carrying Value    | Allowance                 |            |
|                               |                   | for Loan Losses Allocated | Fair Value |
| Commercial                    |                   |                           |            |
| Commercial & Industrial       | \$537             | \$ 36                     | \$501      |
| Farmland                      | —                 | —                         | —          |
| Non Farm, Non Residential     | 657               | 206                       | 451        |
| Agriculture                   | —                 | —                         | —          |
| All Other Commercial          | —                 | —                         | —          |
| Residential                   |                   |                           |            |
| First Liens                   | 524               | 89                        | 435        |
| Home Equity                   | —                 | —                         | —          |
| Junior Liens                  | —                 | —                         | —          |
| Multifamily                   | —                 | —                         | —          |
| All Other Residential         | —                 | —                         | —          |
| Consumer                      |                   |                           |            |
| Motor Vehicle                 | —                 | —                         | —          |
| All Other Consumer            | —                 | —                         | —          |
| TOTAL                         | \$1,718           | \$ 331                    | \$1,387    |

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The carrying amounts and estimated fair value of financial instruments at June 30, 2017 and December 31, 2016, are shown below. Carrying amount is the estimated fair value for cash and due from banks, federal funds sold, short-term borrowings, accrued interest receivable and payable, demand deposits, short-term debt and variable-rate loans or deposits that reprice frequently and fully. Security fair values were described previously. For fixed-rate, non-impaired loans or deposits, variable rate loans or deposits with infrequent repricing or repricing limits, and for longer-term borrowings, fair value is based on discounted cash flows using current market rates applied to the estimated life and considering credit risk. The valuation of impaired loans was described previously. Loan fair value estimates do not necessarily represent an exit price. Fair values of loans held for sale are based on market bids on the loans or similar loans. It was not practicable to determine the fair value of Federal Home Loan Bank stock due to restrictions placed on its transferability. Fair value of debt is based on current rates for similar financing. The fair value of off-balance sheet items is not considered material.

|                                 | June 30, 2017     |            |             |           |             |
|---------------------------------|-------------------|------------|-------------|-----------|-------------|
|                                 | Carrying          | Fair Value |             |           |             |
| (Dollar amounts in thousands)   | Value             | Level 1    | Level 2     | Level 3   | Total       |
| Cash and due from banks         | \$55,379          | \$18,860   | \$36,519    | \$        | —\$55,379   |
| Securities available-for-sale   | 851,577           | —          | 835,614     | 15,963    | 851,577     |
| Restricted stock                | 10,369            | n/a        | n/a         | n/a       | n/a         |
| Loans, net                      | 1,837,350         | —          | —           | 1,851,920 | 1,851,920   |
| Accrued interest receivable     | 11,564            | —          | 3,522       | 8,042     | 11,564      |
| Deposits                        | (2,427,723)       | —          | (2,427,396) | —         | (2,427,396) |
| Short-term borrowings           | (51,880 )         | —          | (51,880 )   | —         | (51,880 )   |
| Federal Home Loan Bank advances | (132 )            | —          | (136 )      | —         | (136 )      |
| Accrued interest payable        | (327 )            | —          | (327 )      | —         | (327 )      |
|                                 | December 31, 2016 |            |             |           |             |
|                                 | Carrying          | Fair Value |             |           |             |
| (Dollar amounts in thousands)   | Value             | Level 1    | Level 2     | Level 3   | Total       |
| Cash and due from banks         | \$75,012          | \$21,047   | \$53,965    | \$        | —\$75,012   |
| Federal funds sold              | 6,952             | —          | 6,952       | —         | 6,952       |
| Securities available-for-sale   | 853,725           | —          | 837,147     | 16,578    | 853,725     |
| Restricted stock                | 10,359            | n/a        | n/a         | n/a       | n/a         |
| Loans, net                      | 1,820,407         | —          | —           | 1,854,046 | 1,854,046   |
| Accrued interest receivable     | 12,311            | —          | 3,340       | 8,971     | 12,311      |
| Deposits                        | (2,428,526)       | —          | (2,414,555) | —         | (2,414,555) |
| Short-term borrowings           | (80,989 )         | —          | (80,989 )   | —         | (80,989 )   |
| Federal Home Loan Bank advances | (132 )            | —          | (137 )      | —         | (137 )      |
| Accrued interest payable        | (363 )            | —          | (363 )      | —         | (363 )      |

## 5. Short-Term Borrowings

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

|                         | (000 's)      |                   |
|-------------------------|---------------|-------------------|
|                         | June 30, 2017 | December 31, 2016 |
| Federal Funds Purchased | \$28,662      | \$49,982          |
| Repurchase Agreements   | 23,218        | 31,007            |
|                         | \$51,880      | \$80,989          |

The Corporation enters into sales of securities under agreements to repurchase. The amounts received under these agreements represent short-term borrowings and are reflected as a liability in the consolidated balance sheets. The

securities underlying these agreements are included in investment securities in the consolidated balance sheets. The Corporation has no control over the market value of the securities, which fluctuates due to market conditions. However, the Corporation is obligated to promptly transfer additional securities if the market value of the securities falls below the repurchase agreement price. The

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Corporation manages this risk by maintaining an unpledged securities portfolio that it believes is sufficient to cover a decline in the market value of the securities sold under agreements to repurchase.

Collateral pledged to repurchase agreements by remaining maturity are as follows:

|  | June 30, 2017                                    |               |              |                      |          |
|--|--|---------------|--------------|----------------------|----------|
|  | Remaining Contractual Maturity of the Agreements |               |              |                      |          |
|  | Overnight  | Up to 30 days | 30 - 90 days | Greater than 90 days | Total    |
| Repurchase Agreements  |  |               |              |                      |          |
| (Dollar amounts in thousands)  |  |               |              |                      |          |
| Mortgage Backed Securities - Residential and Collateralized Mortgage Obligations | \$6,626  | \$150         | \$251        | \$16,191             | \$23,218 |
|  |  |               |              |                      |          |
|  | December 31, 2016                                |               |              |                      |          |
|  | Remaining Contractual Maturity of the Agreements |               |              |                      |          |
|  | Overnight  | Up to 30 days | 30 - 90 days | Greater than 90 days | Total    |
| Repurchase Agreements  |  |               |              |                      |          |
| (Dollar amounts in thousands)  |  |               |              |                      |          |
| Mortgage Backed Securities - Residential and Collateralized Mortgage Obligations | \$11,238   | \$9,495       | \$9,516      | \$ 758               | \$31,007 |

6. Components of Net Periodic Benefit Cost

|                                     | Three Months Ended June 30,<br>(000's) |         |                                 |       | Six Months Ended June 30,<br>(000's) |          |                                 |        |
|-------------------------------------|--|---------|---------------------------------|-------|--------------------------------------|----------|---------------------------------|--------|
|                                     | Pension Benefits                       |         | Post-Retirement Health Benefits |       | Pension Benefits                     |          | Post-Retirement Health Benefits |        |
|                                     | 2017                                   | 2016    | 2017                            | 2016  | 2017                                 | 2016     | 2017                            | 2016   |
| Service cost                        | \$358                                  | \$470   | \$ 13                           | \$ 14 | \$716                                | \$941    | \$ 26                           | \$ 27  |
| Interest cost                       | 905                                    | 932     | 43                              | 46    | 1,810                                | 1,865    | 86                              | 93     |
| Expected return on plan assets      | (985 )                                 | (857 )  | —                               | —     | (1,970 )                             | (1,715 ) | —                               | —      |
| Net amortization of net (gain) loss | 301                                    | 484     | —                               | —     | 602                                  | 967      | —                               | —      |
| Net Periodic Benefit Cost           | \$579                                  | \$1,029 | \$ 56                           | \$ 60 | \$1,158                              | \$2,058  | \$ 112                          | \$ 120 |

Employer Contributions

First Financial Corporation previously disclosed in its financial statements for the year ended December 31, 2016 that it expected to contribute \$2.5 million and \$858 thousand respectively to its Pension Plan and ESOP and \$260 thousand to the Post Retirement Health Benefits Plan in 2017. Contributions of \$977 thousand have been made to the Pension Plan thus far in 2017. Contributions of \$111 thousand have been made through the first six months of 2017 for the Post Retirement Health Benefits plan. No contributions have been made in 2017 for the ESOP. The Pension plan was frozen for most employees at the end of 2012 and for those employees there will be discretionary contributions to the ESOP plan and a 401K plan in place of the former Pension benefit. In the first six months of 2017 and 2016 there has been \$867 thousand and \$826 thousand of expense accrued for potential contributions to these alternative retirement benefit options.



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7. New accounting standards

Accounting Pronouncements Adopted:

ASU No. 2016-09, "Improvements to Employee Share-Based Payment Accounting" includes provisions intended to simplify various aspects related to how share-based payments are accounted for and presented in the financial statements. Some of the key provisions of this new ASU include: (1) companies will no longer record excess tax benefits and certain tax deficiencies in additional paid-in capital ("APIC"). Instead, they will record all excess tax benefits and tax deficiencies as income tax expense or benefit in the income statement, and APIC pools will be eliminated. The guidance also eliminates the requirement that excess tax benefits be realized before companies can recognize them. In addition, the guidance requires companies to present excess tax benefits as an operating activity on the statement of cash flows rather than as a financing activity; (2) increase the amount an employer can withhold to cover income taxes on awards and still qualify for the exception to liability classification for shares used to satisfy the employer's statutory income tax withholding obligation. The new guidance will also require an employer to classify the cash paid to a tax authority when shares are withheld to satisfy its statutory income tax withholding obligation as a financing activity on its statement of cash flows (current guidance did not specify how these cash flows should be classified); and (3) permit companies to make an accounting policy election for the impact of forfeitures on the recognition of expense for share-based payment awards. Forfeitures can be estimated, as required today, or recognized when they occur. The Corporation adopted ASU 2016-09 in the first quarter of 2017. The adoption of ASU No. 2016-09 did not have a material impact on the consolidated financial statements.

Recent Accounting Pronouncements:

In May 2014, the FASB issued an update (ASU No. 2014-09, Revenue from Contracts with Customers) creating FASB Topic 606, Revenue from Contracts with Customers. The guidance in this update affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (for example, insurance contracts or lease contracts). The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance provides steps to follow to achieve the core principle. An entity should disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The amendments in this update become effective for annual periods and interim periods within those annual periods beginning after December 15, 2017. We do not expect the new standard to result in a material change from our current accounting for revenue because the majority of the Corporation's revenue is not within the scope of Topic 606, but it will result in new disclosure requirements.

In January 2016, the FASB issued ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities, amending ASU Subtopic 825-10. The amendments in this update make targeted improvements to generally accepted accounting principles (GAAP) as follows: 1) Require equity investments to be measured at fair value with changes in fair value recognized in net income.; 2) Simplify the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment.; 3) Eliminate the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities.; 4) Eliminate the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet.; 5) Require public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes.; 6) Require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments.; 7) Require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the

financial statements.; and 8) Clarify that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. The amendments in this update are effective for fiscal years beginning after December 15, 2017. The impact is not expected to be material to the financial statements. However, the fair value disclosures for our loan portfolio will consider the exit price upon adoption.

In February 2016, the FASB issued ASU No. 2016-02, "Leases." Under the new guidance, lessees will be required to recognize the following for all leases (with the exception of short-term leases): 1) a lease liability, which is the present value of a lessee's obligation to make lease payments, and 2) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Lessor accounting under the new guidance remains largely unchanged as it is substantially equivalent to existing guidance for sales-type leases, direct financing leases, and operating leases. Leveraged leases have been eliminated, although lessors can continue to account for existing leveraged leases using the current accounting guidance. Other limited changes were made to align lessor accounting with the lessee accounting model and the new revenue

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recognition standard. All entities will classify leases to determine how to recognize lease-related revenue and expense. Quantitative and qualitative disclosures will be required by lessees and lessors to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. The intention is to require enough information to supplement the amounts recorded in the financial statements so that users can understand more about the nature of an entity's leasing activities. ASU No. 2016-02 is effective for interim and annual reporting periods beginning after December 15, 2018; early adoption is permitted. All entities are required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. They have the option to use certain relief; full retrospective application is prohibited. The Corporation is currently evaluating the provisions of ASU No. 2016-02 and will be closely monitoring developments and additional guidance to determine the potential impact the new standard will have on the Corporation's Consolidated Financial Statements.

In June 2016 ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (ASU 2016-13), was issued and requires entities to use a current expected credit loss ("CECL") model which is a new impairment model based on expected losses rather than incurred losses. Under this model an entity would recognize an impairment allowance equal to its current estimate of all contractual cash flows that the entity does not expect to collect from financial assets measured at amortized cost. The entity's estimate would consider relevant information about past events, current conditions, and reasonable and supportable forecasts, which will result in recognition of lifetime expected credit losses upon loan origination. ASU 2016-13 is effective for interim and annual reporting periods beginning after December 15, 2019, with early adoption permitted for annual reporting periods beginning after December 15, 2018. Management has initiated an implementation committee to assist in assessing data and system needs for the new standard. Management anticipates the effect will be an increase to the allowance for loan losses upon adoption, however, the overall increase is uncertain at this time.

In August of 2016 ASU 2016-15 "Statement of Cash Flows (Topic 230)" ("ASU 2016-15") was issued and is intended to reduce the diversity in practice around how certain transactions are classified within the statement of cash flows. ASU 2016-15 is effective for public companies for annual periods beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted with retrospective application. The Corporation is assessing ASU 2016-15 but does not expect a significant impact on its accounting and disclosures.

In January 2017, the FASB issued ASU No. 2017-04, "Simplifying the Test for Goodwill Impairment." The guidance removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. Goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. All other goodwill impairment guidance will remain largely unchanged. ASU No. 2017-04 is effective for interim and annual reporting periods beginning after December 15, 2019, applied prospectively. Early adoption is permitted for any impairment tests performed after January 1, 2017. The Corporation is assessing ASU 2017-04 but does not expect a significant impact on its accounting and disclosures.

In March 2017, the FASB issued ASU No. 2017-07, "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost." Under the new guidance, employers will present the service cost component of the net periodic benefit cost in the same income statement line item (e.g., Salaries and Benefits) as other employee compensation costs arising from services rendered during the period. In addition, only the service cost component will be eligible for capitalization in assets. Employers will present the other components separately (e.g., Other Noninterest Expense) from the line item that includes the service cost. ASU No. 2017-07 is effective for interim and annual reporting periods beginning after December 15, 2017. Early adoption is permitted, however, the Corporation has decided not to early adopt. Employers will apply the guidance on the presentation of the components of net periodic benefit cost in the income statement retrospectively. The guidance limiting the capitalization of net periodic benefit cost in assets to the service cost component will be applied prospectively. The Corporation is assessing ASU 2017-07 but does not expect a significant impact on its accounting and disclosures.

In March 2017, the FASB issued ASU No. 2017-08, "Premium Amortization on Purchased Callable Debt Securities." This ASU shortens the amortization period for the premium on certain purchased callable debt securities to the earliest call date. Today, entities generally amortize the premium over the contractual life of the security. The new guidance does not change the accounting for purchased callable debt securities held at a discount; the discount continues to be



amortized to maturity. ASU No. 2017-08 is effective for interim and annual reporting periods beginning after December 15, 2018; early adoption is permitted. The guidance calls for a modified retrospective transition approach under which a cumulative-effect adjustment will be made to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. The impact is not expected to be material on the financial statements of the provisions of ASU No. 2017-08 as the Corporation is already amortizing to call date.

In May 2017, the FASB issued ASU 2017-09, Compensation-Stock Compensation (Topic 718): Scope of Modification”. ASU 2017-09 was issued to provide clarity and reduce both 1) diversity in practice and 2) cost and complexity when applying the guidance in Topic 718, Compensation - Stock Compensation, to a change to the terms or conditions of a share-based payment award. Diversity in practice has arisen in part because some entities apply modification accounting under Topic 718 for modifications to terms and conditions that they consider substantive, but do not when they conclude that particular

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modifications are not substantive. Others apply modification accounting for any change to an award, except for changes that they consider purely administrative in nature. Still others apply modification accounting when a change to an award changes the fair value, the vesting, or the classification of the award. In practice, it appears that the evaluation of a change in fair value, vesting, or classification may be used to evaluate whether a change is substantive. ASU 2017-09 include guidance on determining which changes to the terms and conditions of share-based payment awards require an entity to apply modification accounting under Topic 718. ASU 2017-09 is effective for the annual period, and interim periods within the annual periods, beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period for: (a) public business entities for reporting periods for which financial statements have not yet been issued, and (b) all other entities for reporting periods for which financial statements have not yet been made available for issuance. ASU 2017-09 should be applied prospectively to an award modified on or after the adoption date. The Corporation is currently in the process of evaluating the impact of ASU 2017-09 on its consolidated financial statements, but does not expect the adoption of ASU 2017-09 to have material impact on its consolidated financial statements.

## 8. Acquisitions, Divestitures and FDIC Indemnification Asset

The Bank is party to a loss sharing agreement with the FDIC as a result of a 2009 acquisition. Under the loss-sharing agreement (“LSA”), the Bank will share in the losses on assets covered under the agreement (referred to as covered assets). On losses up to \$29 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 \$19.4 million for losses and carrying expenses and currently carries an immaterial balance in the indemnification asset. The balance of loans covered by the loss share agreement at June 30, 2017 and December 31, 2016 totaled \$4.7 million and \$5.1 million, respectively. The only loans still covered by the loss share agreement are the single family loans; however recoveries on non-single family loans are still subject to sharing with the FDIC through July 2, 2017.

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 loans accounted for in accordance with FASB ASC 310-30 at June 30, 2017 and 2016 are shown in the following table:

|                               | 2017       |          |          |
|-------------------------------|------------|----------|----------|
| (Dollar amounts in thousands) | Commercial | Consumer | Total    |
| Beginning balance, April 1,   | \$ 2,009   | \$       | —\$2,009 |
| Discount accretion            |            |          |          |
| Disposals                     | (26 )      | —        | (26 )    |
| ASC 310-30 Loans, June 30,    | \$ 1,983   | \$       | —\$1,983 |
|                               | 2017       |          |          |
| (Dollar amounts in thousands) | Commercial | Consumer | Total    |
| Beginning balance, January 1, | \$ 3,451   | \$ 1,430 | \$ 4,881 |
| Discount accretion            | —          | —        | —        |
| Disposals                     | (1,468 )   | (1,430 ) | (2,898 ) |
| ASC 310-30 Loans, June 30,    | \$ 1,983   | \$ —     | \$ 1,983 |
|                               | 2016       |          |          |
| (Dollar amounts in thousands) | Commercial | Consumer | Total    |

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|                             |          |          |         |
|-----------------------------|----------|----------|---------|
| Beginning balance, April 1, | \$ 4,036 | \$ 1,467 | \$5,503 |
| Discount accretion          | —        | —        | —       |
| Disposals                   | (124 )   | (11 )    | (135 )  |
| ASC 310-30 Loans, June 30,  | \$ 3,912 | \$ 1,456 | \$5,368 |

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|                               | 2016       |          |          |
|-------------------------------|------------|----------|----------|
| (Dollar amounts in thousands) | Commercial | Consumer | Total    |
| Beginning balance, January 1, | \$ 4,122   | \$ 1,480 | \$ 5,602 |
| Disposals                     | (210 )     | (24 )    | (234 )   |
| ASC 310-30 Loans, June 30,    | \$ 3,912   | \$ 1,456 | \$ 5,368 |

During the quarter ended March 31, 2016 the Corporation sold a significant portion of the assets and liabilities of the insurance operation for a gain of \$13.0 million . The total assets, total revenues and net income of the insurance operation for 2015 were \$13.0 million, \$7.6 million and \$168 thousand, respectively. For 2014 they were \$15.8 million, \$8.3 million and \$554 thousand, respectively. The Corporation has chosen to focus its resources on the core banking activities.

## 9. Accumulated Other Comprehensive Income

The following tables summarize the changes, net of tax within each classification of accumulated other comprehensive income/(loss) for the three and six months ended June 30, 2017 and 2016.

| (Dollar amounts in thousands)                                       | Unrealized gains and (Losses) on available-for-sale Securities | Retirement plans | Total      |
|---|--|------------------|------------|
| Beginning balance, April 1,   | \$ 2,111   | \$(12,904)       | \$(10,793) |
| Change in other comprehensive income (loss) before reclassification | 5,055  | —                | 5,055      |
| Amounts reclassified from accumulated other comprehensive income    | (10 )  | 184              | 174        |
| Net Current period other comprehensive other income                 | 5,045  | 184              | 5,229      |
| Ending balance, June 30,  | \$ 7,156   | \$(12,720)       | \$(5,564 ) |

| (Dollar amounts in thousands)                                       | Unrealized gains and (Losses) on available-for-sale Securities | Retirement plans | Total      |
|---|--|------------------|------------|
| Beginning balance, January 1,                                       | \$ (1,077 )  | \$(13,087)       | \$(14,164) |
| Change in other comprehensive income (loss) before reclassification | 8,244  | —                | 8,244      |
| Amounts reclassified from accumulated other comprehensive income    | (11 )  | 367              | 356        |
| Net Current period other comprehensive other income                 | 8,233  | 367              | 8,600      |
| Ending balance, June 30,  | \$ 7,156   | \$(12,720)       | \$(5,564 ) |

| (Dollar amounts in thousands)                                       | Unrealized gains and (Losses) on available-for-sale Securities | Retirement plans | Total      |
|---|--|------------------|------------|
| Beginning balance, January 1,                                       | \$ (1,077 )  | \$(13,087)       | \$(14,164) |
| Change in other comprehensive income (loss) before reclassification | 8,244  | —                | 8,244      |
| Amounts reclassified from accumulated other comprehensive income    | (11 )  | 367              | 356        |
| Net Current period other comprehensive other income                 | 8,233  | 367              | 8,600      |
| Ending balance, June 30,  | \$ 7,156   | \$(12,720)       | \$(5,564 ) |

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|   |           |            |           |
|---|-----------|------------|-----------|
| Beginning balance, April 1,   | \$ 13,091 | \$(18,150) | \$(5,059) |
| Change in other comprehensive income (loss) before reclassification | 1,269     | —          | 1,269     |
| Amounts reclassified from accumulated other comprehensive income    | (7        | ) 304      | 297       |
| Net Current period other comprehensive other income                 | 1,262     | 304        | 1,566     |
| Ending balance, June 30,  | \$ 14,353 | \$(17,846) | \$(3,493) |

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|   | Unrealized<br>gains and<br>(Losses)<br>on<br>available-<br>for-sale | Retirement<br>plans | Total     |
|---|---|---------------------|-----------|
| (Dollar amounts in thousands)                                       | Securities  |                     |           |
| Beginning balance, January 1,                                       | \$ 9,053  | \$(18,454)          | \$(9,401) |
| Change in other comprehensive income (loss) before reclassification | 5,308   | —                   | 5,308     |
| Amounts reclassified from accumulated other comprehensive income    | (8 )  | 608                 | 600       |
| Net Current period other comprehensive other income                 | 5,300   | 608                 | 5,908     |
| Ending balance, June 30,  | \$ 14,353   | \$(17,846)          | \$(3,493) |

|  | Balance<br>at<br>4/1/2017 | Current<br>Period<br>Change | Balance<br>at<br>6/30/2017 |
|--|---------------------------|-----------------------------|----------------------------|
| (Dollar amounts in thousands)  |                           |                             |                            |
| Unrealized gains (losses) on securities available-for-sale without other than temporary impairment | \$326                     | \$4,803                     | \$5,129                    |
| Unrealized gains (losses) on securities available-for-sale with other than temporary impairment    | 1,785                     | 242                         | 2,027                      |
| Total unrealized loss on securities available-for-sale   | \$2,111                   | \$5,045                     | \$7,156                    |
| Unrealized loss on retirement plans  | (12,904 )                 | 184                         | (12,720 )                  |
| TOTAL  | \$(10,793)                | \$5,229                     | \$(5,564 )                 |

|  | Balance<br>at<br>1/1/2017 | Current<br>Period<br>Change | Balance<br>at<br>6/30/2017 |
|--|---------------------------|-----------------------------|----------------------------|
| (Dollar amounts in thousands)  |                           |                             |                            |
| Unrealized gains (losses) on securities available-for-sale without other than temporary impairment | \$(3,018 )                | \$8,147                     | \$5,129                    |
| Unrealized gains (losses) on securities available-for-sale with other than temporary impairment    | 1,941                     | 86                          | 2,027                      |
| Total unrealized loss on securities available-for-sale   | \$(1,077 )                | \$8,233                     | \$7,156                    |
| Unrealized loss on retirement plans  | (13,087 )                 | 367                         | (12,720 )                  |
| TOTAL  | \$(14,164)                | \$8,600                     | \$(5,564 )                 |

|  | Balance<br>at<br>4/1/2016 | Current<br>Period<br>Change | Balance<br>at<br>6/30/2016 |
|--|---------------------------|-----------------------------|----------------------------|
| (Dollar amounts in thousands)  |                           |                             |                            |
| Unrealized gains (losses) on securities available-for-sale without other than temporary impairment | \$10,880                  | \$2,240                     | \$13,120                   |
| Unrealized gains (losses) on securities available-for-sale with other than temporary impairment    | 2,211                     | (978 )                      | 1,233                      |
| Total unrealized loss on securities available-for-sale   | \$13,091                  | \$1,262                     | \$14,353                   |
| Unrealized loss on retirement plans  | (18,150 )                 | 304                         | (17,846 )                  |
| TOTAL  | \$(5,059 )                | \$1,566                     | \$(3,493 )                 |

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|  | Balance<br>at<br>1/1/2016 | Current<br>Period<br>Change | Balance<br>at<br>6/30/2016 |
|--|---------------------------|-----------------------------|----------------------------|
| (Dollar amounts in thousands)  |                           |                             |                            |
| Unrealized gains (losses) on securities available-for-sale without other than temporary impairment | \$6,083                   | \$7,037                     | \$ 13,120                  |
| Unrealized gains (losses) on securities available-for-sale with other than temporary impairment    | 2,970                     | (1,737 )                    | 1,233                      |
| Total unrealized loss on securities available-for-sale   | \$9,053                   | \$5,300                     | \$ 14,353                  |
| Unrealized loss on retirement plans  | (18,454)                  | 608                         | (17,846 )                  |
| TOTAL  | \$(9,401)                 | \$5,908                     | \$(3,493 )                 |

|   | Three Months<br>Ended June<br>30, 2017<br>Amount | Affected line item in<br>from<br>accumulated<br>other<br>comprehensive<br>income<br>(in thousands) |
|---|--|--|
| Details about accumulated<br>other comprehensive<br>income components |  | the statement where<br>net income is presented   |
| Unrealized gains and losses<br>on available-for-sale<br>securities    | \$ 15<br>(5 )<br>\$ 10                           | Net securities gains (losses)<br>Income tax expense<br>Net of tax                                  |
| Amortization of<br>retirement plan items                              | \$ (301 )<br>117<br>\$ (184 )                    | (a) Salary and benefits<br>Income tax expense<br>Net of tax  |
| Total reclassifications for the period                                | \$ (174 )  | Net of tax   |

(a) Included in the computation of net periodic benefit cost. (see Footnote 6 for additional details).

|   | Six Months<br>Ended June<br>30, 2017<br>Amount | Affected line item in<br>from<br>accumulated<br>other<br>comprehensive<br>income<br>(in thousands) |
|---|--|--|
| Details about accumulated<br>other comprehensive<br>income components |  | the statement where<br>net income is presented   |
| Unrealized gains and losses<br>on available-for-sale<br>securities    | \$ 17<br>(6 )<br>\$ 11                         | Net securities gains (losses)<br>Income tax expense<br>Net of tax                                  |
| Amortization of<br>retirement plan items                              | \$ (602 )<br>235<br>\$ (367 )                  | (a) Salary and benefits<br>Income tax expense<br>Net of tax  |

Total reclassifications for the period \$ (356 ) Net of tax

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|   | Three Months<br>Ended June<br>30, 2016<br>Amount                                  |   |
|---|---|---|
| Details about accumulated<br>other comprehensive<br>income components | reclassified<br>accumulated<br>other<br>comprehensive<br>income<br>(in thousands) | Affected line item in<br>the statement where<br>net income is presented |
| Unrealized gains and losses<br>on available-for-sale<br>securities    | \$ 10<br>(3 )<br>\$ 7   | Net securities gains (losses)<br>Income tax expense<br>Net of tax       |
| Amortization of<br>retirement plan items                              | \$ (507 )<br>203<br>\$ (304 )   | (a) Salary and benefits<br>Income tax expense<br>Net of tax             |
| Total reclassifications for the period                                | \$ (297 )   | Net of tax  |

(a) Included in the computation of net periodic benefit cost. (see Footnote 6 for additional details).

|   | Six Months<br>Ended June<br>30, 2016<br>Amount                                    |   |
|---|---|---|
| Details about accumulated<br>other comprehensive<br>income components | reclassified<br>accumulated<br>other<br>comprehensive<br>income<br>(in thousands) | Affected line item in<br>the statement where<br>net income is presented |
| Unrealized gains and losses<br>on available-for-sale<br>securities    | \$ 13<br>(5 )<br>\$ 8   | Net securities gains (losses)<br>Income tax expense<br>Net of tax       |
| Amortization of<br>retirement plan items                              | \$ (1,014 )<br>406<br>\$ (608 )   | (a) Salary and benefits<br>Income tax expense<br>Net of tax             |
| Total reclassifications for the period                                | \$ (600 )   | Net of tax  |

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

The purpose of this discussion is to point out key factors in the Corporation's recent performance compared with earlier periods. The discussion should be read in conjunction with the financial statements beginning on page three of this report. All figures are for the consolidated entities. It is presumed the readers of these financial statements and of the following narrative have previously read the Corporation's financial statements for 2016 in the 10-K filed for the fiscal year ended December 31, 2016.

This Quarterly Report on Form 10-Q contains forward-looking statements. Forward-looking statements provide current expectations or forecasts of future events and are not guarantees of future performance, nor should they be relied upon as representing management's views as of any subsequent date. The forward-looking statements are based on management's expectations and are subject to a number of risks and uncertainties. Although management believes that the expectations reflected in such forward-looking statements are reasonable, actual results may differ materially from those expressed or implied in such statements. Risks and uncertainties that could cause actual results to differ materially include, without limitation, the Corporation's ability to effectively execute its business plans; changes in general economic and financial market conditions; changes in interest rates; changes in the competitive environment; continuing consolidation in the financial services industry; new litigation or changes in existing litigation; losses, customer bankruptcy, claims and assessments; changes in banking regulations or other regulatory or legislative requirements affecting the Corporation's business; and changes in accounting policies or procedures as may be required by the Financial Accounting Standards Board or other regulatory agencies. Additional information concerning factors that could cause actual results to differ materially from those expressed or implied in the forward-looking statements is available in the Corporation's Form 10-K for the year ended December 31, 2016, 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.

#### 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 2016 Form 10-K.

#### Summary of Operating Results

Net income for the three months ended June 30, 2017 was \$8.4 million, compared to \$8.2 million for the same period of 2016. Basic earnings per share was unchanged at \$0.68 for the first quarter of 2017 compared to the same period in 2016. Return on Assets and Return on Equity were 1.12% and 7.75% respectively, for the three months ended June 30, 2017 compared to 1.12% and 8.04% for the three months ended June 30, 2016. Net income for the six months ended June 30, 2017 was \$17.7 million, compared to \$21.9 million for the same period of 2016. The decrease was due to an after-tax gain on the sale of the Corporation's insurance subsidiary of \$5.84 million that occurred in first quarter 2016. Basic earnings per share

decreased to \$1.45 for the first six months of 2017 compared to \$1.76 for same period of 2016. Return on Assets and Return on Equity were 1.19% and 8.26% respectively, for the six months ended June 30, 2017 compared to 1.48% and 10.67% for the six months ended June 30, 2016.

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 \$500 thousand in the three months ended June 30, 2017 to \$26.6 million from \$26.1 million in the same period in 2016. The net interest margin for the three months ended June 30, 2017 is 4.05% compared to 4.04% for the same period of 2016, a 0.25% increase. Net interest income increased \$850 thousand in the six months ended June 30, 2017 to \$53.1 million from \$52.2 million in the same period in 2016. The net interest margin for the six months ended June 30, 2017 was unchanged at 4.05% compared to the same period in 2016.

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## Non-Interest Income

Non-interest income for the three months ended June 30, 2017 was \$8.1 million compared to \$8.2 million for the same period of 2016. Trust fees and mortgage gains decreased from the same period in 2016. Non-interest income for the six months ended June 30, 2017 was \$19.2 million compared to \$30.6 million for the same period of 2016. Gain on the sale of assets and liabilities of the insurance brokerage operation of \$13.0 million in the first quarter 2016 was the main component of this decrease. A first quarter 2017 cash recovery of previous other-than-temporary impairment increased non-interest income \$3.1 million.

## Non-Interest Expenses

The Corporation's non-interest expense for the quarter ended June 30, 2017 decreased by \$672 thousand to \$22.1 million compared to the same period in 2016. Salaries and employee benefits decreased \$623 thousand. The Corporation's non-interest expense for the six months ended June 30, 2017 decreased by \$1.4 million to \$44.7 million compared to the same period in 2016. Savings were realized with reduced operating expenses for the Corporation's insurance subsidiary, which was sold in first quarter 2016.

## Allowance for Loan Losses

The Corporation's provision for loan losses increased \$605 thousand to \$1.0 million for first quarter of 2017 compared to \$435 thousand for the same period of 2016. Net charge offs for the first quarter of 2017 were \$755 thousand compared to \$856 thousand for the same period of 2016. The provision for loan losses increased \$1.3 million to \$2.6 million for the six months ended June 30, 2017 compared to \$1.3 million for the same period of 2016. Net charge offs for the first six months of 2017 were unchanged at \$1.7 million compared to the same period of 2016. 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.

## Income Tax Expense

The Corporation's effective income tax rate for the first six months of 2017 decreased from the same period in 2016 primarily due to the sale of certain assets and liabilities of the Forrest Sherer insurance operation in first quarter 2016 which eliminated the goodwill of \$5.1 million from the original acquisition. That goodwill was not deductible for tax purposes which had the effect of increasing the tax gain on the sale compared to the book gain, resulting in additional tax expense.

## Non-performing Loans

Non-performing loans consist of (1) non-accrual loans on which the ultimate collectability of the full amount of interest is uncertain, (2) loans which have been renegotiated to provide for a reduction or deferral of interest or principal because of a deterioration in the financial position of the borrower, and (3) loans past due ninety days or more as to principal or interest. Non-performing loans decreased to \$20.4 million at June 30, 2017 compared to \$22.7 million at December 31, 2016. Nonperforming loans decreased 17.6% compared to \$24.7 million as of June 30, 2016. A summary of non-performing loans at June 30, 2017 and December 31, 2016 follows:

|          |          |
|----------|----------|
| (000's)  |          |
| June 30, | December |
| 2017     | 31,      |
|          | 2016     |

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|   |          |          |   |
|---|----------|----------|---|
| Non-accrual loans   | \$11,255 | \$13,492 |   |
| Accruing restructured loans   | 3,650    | 3,729    |   |
| Nonaccrual restructured loans   | 4,334    | 4,836    |   |
| Accruing loans past due over 90 days  | 1,117    | 610      |   |
|   | \$20,356 | \$22,667 |   |
| Ratio of the allowance for loan losses<br>as a percentage of non-performing loans | 96.7     | % 82.8   | % |

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

|                          | (000's)          |                         |
|--------------------------|------------------|-------------------------|
|                          | June 30,<br>2017 | December<br>31,<br>2016 |
| Non-accrual loans        |                  |                         |
| Commercial loans         | \$5,239          | \$ 6,534                |
| Residential loans        | 5,091            | 6,077                   |
| Consumer loans           | 925              | 881                     |
|                          | \$11,255         | \$ 13,492               |
| Past due 90 days or more |                  |                         |
| Commercial loans         | \$80             | \$ 44                   |
| Residential loans        | 755              | 287                     |
| Consumer loans           | 282              | 279                     |
|                          | \$1,117          | \$ 610                  |

## 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.

The table below shows the Corporation's estimated sensitivity profile as of June 30, 2017. 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 1.92% over the next 12 months and increase 5.77% over the following 12 months.

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Given a 100 basis point decrease in rates, net interest income would decrease 2.64% over the next 12 months and decrease 4.46% 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          | Percentage Change in Net Interest Income |           |           |
|----------------------|--|-----------|-----------|
|                      | 12 months                                | 24 months | 36 months |
| Interest Rate Change |  |           |           |
| Down 200             | -3.75 %                                  | -7.55 %   | -10.66 %  |
| Down 100             | -2.64                                    | -4.46     | -6.22     |
| Up 100               | 1.92                                     | 5.77      | 9.77      |
| Up 200               | 0.79                                     | 7.95      | 15.72     |

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

### Liquidity Risk

Liquidity represents an institution's ability to provide funds to satisfy demands from depositors, borrowers, and other creditors by either converting assets into cash or accessing new or existing sources of incremental funds. Generally the Corporation relies on deposits, loan repayments and repayments of investment securities as its primary sources of funds. The Corporation has \$7.4 million of investments that mature throughout the next 12 months. The Corporation also anticipates \$111.7 million of principal payments from mortgage-backed securities. Given the current rate environment, the Corporation anticipates \$21.4 million in securities to be called within the next 12 months. The Corporation also has unused borrowing capacity available with the Federal Home Loan Bank of Indianapolis and several correspondent banks. With these sources of funds, the Corporation currently anticipates adequate liquidity to meet the expected obligations of its customers.

### Financial Condition

Comparing the first six months of 2017 to the same period in 2016, loans, net of deferred loan costs, have increased \$54 million to \$1.9 billion. Deposits remained stable at \$2.4 billion at June 30, 2017 from \$2.4 billion at June 30, 2016. Shareholders' equity increased 5.1% or \$21.2 million. This financial performance increased book value per share 5% to \$35.54 at June 30, 2017 from \$33.89 at June 30, 2016. Book value per share is calculated by dividing the total shareholders' equity by the number of shares outstanding.

### Capital Adequacy

The Federal Reserve, OCC and Federal Deposit Insurance Corporation (collectively, joint agencies) establish regulatory capital guidelines for U.S. banking organizations. Regulatory capital guidelines require that capital be measured in relation to the credit and market risks of both on- and off-balance sheet items using various risk weights. On January 1, 2015, the Basel 3 rules became effective and include transition provisions through January 1, 2019. Under Basel 3, Total capital consists of two tiers of capital, Tier 1 and Tier 2. Tier 1 capital is further composed of Common equity tier 1 capital and additional tier 1 capital.

Common equity tier 1 capital primarily includes qualifying common shareholders' equity, retained earnings and certain minority interests. Goodwill, disallowed intangible assets and certain disallowed deferred tax assets are excluded from Common equity tier 1 capital.

Additional tier 1 capital primarily includes qualifying non-cumulative preferred stock, trust preferred securities (Trust Securities) subject to phase-out and certain minority interests. Certain deferred tax assets are also excluded.

Tier 2 capital primarily consists of qualifying subordinated debt, a limited portion of the allowance for loan and lease losses, Trust Securities subject to phase-out and reserves for unfunded lending commitments. The Corporation's Total capital is the sum of Tier 1 capital plus Tier 2 capital.

To meet adequately capitalized regulatory requirements, an institution must maintain a Tier 1 capital ratio of 7.25 percent and a Total capital ratio of 9.25 percent. A "well-capitalized" institution must generally maintain capital ratios 200 bps higher than the minimum guidelines. The risk-based capital rules have been further supplemented by a Tier 1 leverage ratio, defined as Tier 1 capital divided by quarterly average total assets, after certain adjustments. BHCs must have a minimum Tier 1 leverage ratio of at least 4.0 percent. National banks must maintain a Tier 1 leverage ratio of at least 5.0 percent to be classified as "well capitalized." Failure to meet the capital requirements established by the joint agencies can lead to certain mandatory and discretionary actions by regulators that could have a material adverse effect on the Corporation's financial position. Below are the capital ratios for the Corporation and lead bank.





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The phase in of the capital conservation buffer will have the minimum ratios for common equity Tier 1 capital at 7%, the Tier 1 capital at 8.5% and the total capital at 10.5% in 2019 when fully phased in. Currently the Corporation exceeds all of these minimums.

|                              | June 30, December 31, To Be Well |       |             |         |
|------------------------------|----------------------------------|-------|-------------|---------|
|                              | 2017                             | 2016  | Capitalized |         |
| Common equity tier 1 capital |                                  |       |             |         |
| Corporation                  | 17.80 %                          | 17.43 | %           | N/A     |
| First Financial Bank         | 17.14 %                          | 16.92 | %           | 6.50 %  |
| Total risk-based capital     |                                  |       |             |         |
| Corporation                  | 18.66 %                          | 18.26 | %           | N/A     |
| First Financial Bank         | 17.88 %                          | 17.64 | %           | 10.00 % |
| Tier I risk-based capital    |                                  |       |             |         |
| Corporation                  | 17.80 %                          | 17.43 | %           | N/A     |
| First Financial Bank         | 17.14 %                          | 16.92 | %           | 8.00 %  |
| Tier I leverage capital      |                                  |       |             |         |
| Corporation                  | 13.73 %                          | 13.39 | %           | N/A     |
| First Financial Bank         | 13.14 %                          | 12.82 | %           | 5.00 %  |

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ITEM 4. Controls and Procedures

First Financial Corporation's management is responsible for establishing and maintaining effective disclosure controls and procedures, as defined under Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934. As of June 30, 2017, an evaluation was performed under the supervision and with the participation of management, including the principal executive officer and principal financial officer, of the effectiveness of the design and operation of the Corporation's disclosure controls and procedures. Based on that evaluation, management, including the principal executive officer and principal financial officer, concluded that the Corporation's disclosure controls and procedures as of June 30, 2017 were effective in ensuring material information required to be disclosed in this Quarterly Report on Form 10-Q was recorded, processed, summarized, and reported on a timely basis. Additionally, there was no change in the Corporation's internal control over financial reporting that occurred during the quarter ended June 30, 2017 that has materially affected, or is reasonably likely to materially affect, the Corporation's internal control over financial reporting.

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## 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 to 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 1A. Risk Factors.

There have been no material changes in the risk factors from those disclosed in the Corporation's 2016 Form 10-K filed for December 31, 2016.

## 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. On February 3, 2016 First Financial Corporation issued a press release announcing that its Board of Directors has authorized a stock repurchase program pursuant to which up to 5% of the Corporations outstanding shares of common stock, or approximately 637,500 shares may be repurchased. Following is certain information regarding shares of common stock purchased by the Corporation during the quarter covered by this report.

|                  | (a) Total | (b)      | (c)                      | (c) Maximum                   |
|------------------|-----------|----------|--------------------------|-------------------------------|
|                  | Number    | Average  | Total Number Of Shares   | Number of Shares That May Yet |
|                  | Of        | Price    | Purchased As Part Of     | Be Purchased *                |
|                  | Shares    | Paid Per | Publicly Announced Plans |                               |
|                  | Purchased | Share    | Or Programs *            |                               |
| April 1-30, 2017 | —         | —        | —                        | —                             |
| May 1-31, 2017   | —         | —        | —                        | —                             |
| June 1-30, 2017  | —         | —        | —                        | —                             |
| Total            | —         | —        | —                        | 71,882                        |

## ITEM 3. Defaults upon Senior Securities.

Not applicable.

## ITEM 4. Mine Safety Disclosures

Not applicable.

ITEM 5. Other Information.

Not applicable.

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ITEM 6. Exhibits.

| Exhibit No.: | Description of Exhibit:  |
|--------------|--|
| 3.1          | Amended and Restated Articles of Incorporation of First Financial Corporation, incorporated by reference to Exhibit 3(i) of the Corporation's Form 10-Q filed for the quarter ended September 30, 2002.  |
| 3.2          | Code of By-Laws of First Financial Corporation, incorporated by reference to Exhibit 3(ii) of the Corporation's Form 8-K filed on August 24, 2012.   |
| 10.1*        | Employment Agreement for Norman L. Lowery, dated and effective July 1, 2017, incorporated by reference to Exhibit 10.01 of the Corporation's Form 8-K filed on March 29, 2017.   |
| 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.   |
| 10.5*        | 2005 Long-Term Incentive Plan of First Financial Corporation, incorporated by reference to Exhibit 10.7 of the Corporation's Form 8-K filed on September 4, 2007.  |
| 10.6*        | 2005 Executives Deferred Compensation Plan, incorporated by reference to Exhibit 10.5 of the Corporation's Form 8-K filed on September 4, 2007.  |
| 10.7*        | 2005 Executives Supplemental Retirement Plan, incorporated by reference to Exhibit 10.6 of the Corporation's Form 8-K filed on September 4, 2007.  |
| 10.9*        | First Financial Corporation 2010 Long-Term Incentive Compensation Plan incorporated by reference to Exhibit 10.9 of the Corporation's Form 10-K filed March 15, 2011.  |
| 10.10*       | First Financial Corporation 2011 Short-Term Incentive Compensation Plan incorporated by reference to Exhibit 10.10 of the Corporation's Form 10-K filed March 15, 2011.  |
| 10.11*       | First Financial Corporation 2011 Omnibus Equity Incentive Plan incorporated by reference to Exhibit 10.11 of the Corporation's Form 10-Q for the quarter ended March 31, 2011 filed on May 9, 2011.  |
| 10.12*       | Form of Restricted Stock Award Agreement under the First Financial Corporation 2011 Omnibus Equity Incentive Plan  |
| 10.13*       | Employment Agreement for Norman D. Lowery, dated December 27, 2016, incorporated by reference to Exhibit 10.1 of the Corporation's Form 8-K filed January 24, 2017.  |
| 10.14*       | Employment Agreement for Rodger A. McHargue, dated December 27, 2016, incorporated by reference to Exhibit 10.2 of the Corporation's Form 8-K filed January 24, 2017.  |
| 10.15*       | Employment Agreement for Steven H. Holliday, dated December 27, 2016, incorporated by reference to Exhibit 10.3 of the Corporation's Form 8-K filed January 24, 2017.  |
| 10.16*       | Employment Agreement for Karen L. Stinson-Milienu, dated December 27, 2016, incorporated by reference to Exhibit 10.4 of the Corporation's Form 8-K filed January 24, 2017.  |
| 31.1         | Sarbanes-Oxley Act 302 Certification for Quarterly Report on Form 10-Q for the quarter ended June 30, 2017 by Principal Executive Officer, dated August 2, 2017.   |
| 31.2         | Sarbanes-Oxley Act 302 Certification for Quarterly Report on Form 10-Q for the quarter ended June 30, 2017 by Principal Financial Officer, dated August 2, 2017.   |
| 32.1         | Certification, dated August 2, 2017, of Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2005 on Form 10-Q for the quarter ended June 30, 2017.  |
| 101.1        | Financial statements from the Quarterly Report on Form 10-Q of the Corporation for the quarter ended June 30, 2017, formatted in XBRL pursuant to Rule 405 : (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income and Comprehensive Income, (iii) Consolidated Statements of Cash Flows, (iv) Consolidated Statements of Shareholders' Equity, and (v) Notes to Consolidated Financial Statements, as blocks of text and in detail**. |

\*Management contract or compensatory plan or arrangement.

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



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SIGNATURES

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

FIRST FINANCIAL CORPORATION  
(Registrant)

Date: August 2, 2017 By /s/ Norman L. Lowery  
Norman L. Lowery, Vice Chairman, President and CEO  
(Principal Executive Officer)

Date: August 2, 2017 By /s/ Rodger A. McHargue  
Rodger A. McHargue, Treasurer and CFO  
(Principal Financial Officer)