

FIRST FINANCIAL CORP /IN/
Form 10-Q
May 04, 2016
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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 March 31, 2016

Commission File Number 0-16759

FIRST FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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

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

Yes No .

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No .

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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 May 1, 2016, the registrant had outstanding 12,242,271 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)

	March 31, 2016	December 31, 2015
	(unaudited)	
ASSETS		
Cash and due from banks	\$66,125	\$ 88,695
Federal funds sold	6,444	9,815
Securities available-for-sale	884,176	891,082
Loans:		
Commercial	1,047,599	1,043,980
Residential	436,873	444,447
Consumer	276,471	272,896
	1,760,943	1,761,323
(Less) plus:		
Net deferred loan costs	2,716	2,485
Allowance for loan losses	(19,926)	(19,946)
	1,743,733	1,743,862
Restricted stock	10,838	10,838
Accrued interest receivable	11,907	11,733
Premises and equipment, net	50,394	50,531
Bank-owned life insurance	82,673	82,323
Goodwill	34,355	39,489
Other intangible assets	2,557	3,178
Other real estate owned	2,850	3,466
Other assets	43,188	44,573
TOTAL ASSETS	\$2,939,240	\$ 2,979,585
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest-bearing	\$512,961	\$ 563,302
Interest-bearing:		
Certificates of deposit exceeding the FDIC insurance limits	46,817	46,753
Other interest-bearing deposits	1,840,877	1,832,314
	2,400,655	2,442,369
Short-term borrowings	31,116	33,831
FHLB advances	12,252	12,677
Other liabilities	83,305	80,392
TOTAL LIABILITIES	2,527,328	2,569,269
Shareholders' equity		
Common stock, \$.125 stated value per share;		
Authorized shares-40,000,000		
Issued shares-14,578,758 in 2016 and 14,557,815 in 2015		
Outstanding shares-12,265,355 in 2016 and 12,740,018 in 2015	1,818	1,817
Additional paid-in capital	73,566	73,396

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Retained earnings	409,308	395,633	
Accumulated other comprehensive loss	(5,059) (9,401)
Less: Treasury shares at cost-2,313,403 in 2016 and 1,817,797 in 2015	(67,721) (51,129)
TOTAL SHAREHOLDERS' EQUITY	411,912	410,316	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$2,939,240	\$ 2,979,585	

See accompanying notes.

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CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(Dollar amounts in thousands, except per share data)

	Three Months Ended March 31,	
	2016	2015
	(unaudited)	(unaudited)
INTEREST INCOME:		
Loans, including related fees	\$21,184	\$ 20,807
Securities:		
Taxable	3,831	4,061
Tax-exempt	1,822	1,779
Other	364	431
TOTAL INTEREST INCOME	27,201	27,078
INTEREST EXPENSE:		
Deposits	987	1,020
Short-term borrowings	23	13
Other borrowings	34	50
TOTAL INTEREST EXPENSE	1,044	1,083
NET INTEREST INCOME	26,157	25,995
Provision for loan losses	835	1,450
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	25,322	24,545
NON-INTEREST INCOME:		
Trust and financial services	1,334	1,492
Service charges and fees on deposit accounts	2,504	2,326
Other service charges and fees	3,000	2,838
Securities gains/(losses), net	3	4
Insurance commissions	2,272	1,553
Gain on sale of certain assets and liabilities of insurance brokerage operation	13,021	—
Gain on sales of mortgage loans	404	359
Other	(172)	1,489
TOTAL NON-INTEREST INCOME	22,366	10,061
NON-INTEREST EXPENSE:		
Salaries and employee benefits	13,595	15,058
Occupancy expense	1,731	1,864
Equipment expense	1,837	1,772
FDIC Expense	451	430
Other	5,733	4,869
TOTAL NON-INTEREST EXPENSE	23,347	23,993
INCOME BEFORE INCOME TAXES	24,341	10,613
Provision for income taxes	10,666	2,852
NET INCOME	13,675	7,761
OTHER COMPREHENSIVE INCOME		
Change in unrealized gains/losses on securities, net of reclassifications and taxes	4,039	4,762
Change in funded status of post retirement benefits, net of taxes	304	2,464
COMPREHENSIVE INCOME	\$ 18,018	\$ 14,987
PER SHARE DATA		
Basic and Diluted Earnings per Share	\$ 1.08	\$ 0.60

Weighted average number of shares outstanding (in thousands)	12,646	12,948
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See accompanying notes.

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CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Three Months Ended

March 31, 2016, and 2015

(Dollar amounts in thousands, except per share data)

(Unaudited)

	Common Stock	Additional Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Treasury Stock	Total
Balance, January 1, 2015	\$ 1,815	\$ 72,405	\$377,970	\$ (14,529)	\$(43,447)	\$394,214
Net income	—	—	7,761	—	—	7,761
Other comprehensive income	—	—	—	7,226	—	7,226
Omnibus Equity Incentive Plan	—	171	—	—	—	171
Treasury shares purchased (9,689 shares)	—	—	\$—	\$ —	(345)	(345)
Balance, March 31, 2015	\$ 1,815	\$ 72,576	\$385,731	\$ (7,303)	\$(43,792)	\$409,027
Balance, January 1, 2016	\$ 1,817	\$ 73,396	\$395,633	\$ (9,401)	\$(51,129)	\$410,316
Net income	—	—	13,675	—	—	13,675
Other comprehensive income	—	—	—	4,342	—	4,342
Omnibus Equity Incentive Plan	1	170	—	—	—	171
Treasury shares purchased (495,606 shares)	—	—	—	—	(16,592)	(16,592)
Balance, March 31, 2016	\$ 1,818	\$ 73,566	\$409,308	\$ (5,059)	\$(67,721)	\$411,912
See accompanying notes.						

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

	Three Months Ended March 31, 2016 2015 (Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	\$13,675	\$7,761
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization (accretion) of premiums and discounts on investments	820	745
Provision for loan losses	835	1,450
Securities (gains) losses	(3	) (4
(Gain) loss on sale of other real estate	80	(32
Gain on sale of certain assets and liabilities of insurance brokerage operation	(13,021) —
Restricted stock compensation	171	171
Depreciation and amortization	1,283	1,435
Other, net	9,251	1,848
NET CASH FROM OPERATING ACTIVITIES	13,091	13,374
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of securities available-for-sale	1,445	400
Calls, maturities and principal reductions on securities available-for-sale	31,369	35,064
Purchases of securities available-for-sale	(20,213	) (37,723
Loans made to customers, net of repayment	(468	) 23,503
Proceeds from sale of certain assets and liabilities of insurance brokerage operation	17,094	—
Proceeds from sales of other real estate owned	336	573
Net change in federal funds sold	3,371	(4,688
Additions to premises and equipment	(966	) (387
NET CASH FROM INVESTING ACTIVITIES	31,968	16,742
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net change in deposits	(41,730	) 6,732
Net change in short-term borrowings	(2,715	) (19,553
Maturities of other borrowings	(3,200) —
Proceeds from other borrowings	2,850	—
Purchase of treasury stock	(16,592	) (345
Dividends paid	(6,242	) (6,560
NET CASH FROM FINANCING ACTIVITIES	(67,629	) (19,726
NET CHANGE IN CASH AND CASH EQUIVALENTS	(22,570	) 10,390
CASH AND DUE FROM BANKS, BEGINNING OF PERIOD	88,695	78,102
CASH AND DUE FROM BANKS, END OF PERIOD	\$66,125	\$88,492
See accompanying notes.		

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The accompanying March 31, 2016 and 2015 consolidated financial statements are unaudited. The December 31, 2015 consolidated financial statements are as reported in the First Financial Corporation (the "Corporation") 2015 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, 2015.

1. Significant Accounting Policies

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

The Omnibus Equity Incentive Plan is a long-term incentive plan that was designed to align the interests of participants with the interests of shareholders. Under the plan, awards may be made based on certain performance measures. The grants are made in restricted stock units that are subject to a vesting schedule. These shares vest over 3 years in increments of 33%, 33%, and 34% respectively. In 2016 and 2015, 20,943 and 19,683 shares were awarded, respectively. These shares had a grant date value of \$677 thousand and \$667 thousand for 2016 and 2015, 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 March 31.

Allowance for Loan Losses:	March 31, 2016				
(Dollar amounts in thousands)	Commercial	Residential	Consumer	Unallocated	Total
Beginning balance	\$11,482	\$ 1,834	\$ 4,945	\$ 1,685	\$19,946
Provision for loan losses	(275)	125	787	198	835
Loans charged -off	(267)	(239)	(1,134)	—	(1,640)
Recoveries	228	49	508	—	785
Ending Balance	\$11,168	\$ 1,769	\$ 5,106	\$ 1,883	\$19,926

Allowance for Loan Losses:	March 31, 2015				
(Dollar amounts in thousands)	Commercial	Residential	Consumer	Unallocated	Total
Beginning balance	\$10,915	\$ 1,374	\$ 4,370	\$ 2,180	\$18,839
Provision for loan losses	7	376	830	237	1,450
Loans charged -off	(336)	(225)	(1,262)	—	(1,823)
Recoveries	232	97	556	—	885
Ending Balance	\$10,818	\$ 1,622	\$ 4,494	\$ 2,417	\$19,351

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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 March 31, 2016 and December 31, 2015.

Allowance for Loan Losses	March 31, 2016				Total
(Dollar amounts in thousands)	Commercial	Residential	Consumer	Unallocated	
Individually evaluated for impairment	\$881	\$ 192	\$ —	\$ —	\$1,073
Collectively evaluated for impairment	10,136	1,577	5,106	1,883	18,702
Acquired with deteriorated credit quality	151	—	—	—	151
Ending Balance	\$11,168	\$ 1,769	\$ 5,106	\$ 1,883	\$19,926

Loans:	March 31, 2016				Total
(Dollar amounts in thousands)	Commercial	Residential	Consumer		
Individually evaluated for impairment	\$7,431	\$ 712	\$—		\$8,143
Collectively evaluated for impairment	1,041,900	435,874	277,716		1,755,490
Acquired with deteriorated credit quality	4,007	1,515	—		5,522
Ending Balance	\$1,053,338	\$ 438,101	\$ 277,716		\$1,769,155

Allowance for Loan Losses:	December 31, 2015				Total
(Dollar amounts in thousands)	Commercial	Residential	Consumer	Unallocated	
Individually evaluated for impairment	953	206	—	—	1,159
Collectively evaluated for impairment	10,342	1,628	4,945	1,685	18,600
Acquired with deteriorated credit quality	187	—	—	—	187
Ending Balance	\$11,482	\$ 1,834	\$ 4,945	\$ 1,685	\$19,946

Loans	December 31, 2015				Total
(Dollar amounts in thousands)	Commercial	Residential	Consumer		
Individually evaluated for impairment	8,823	902	—		9,725
Collectively evaluated for impairment	1,037,086	443,224	274,134		1,754,444
Acquired with deteriorated credit quality	4,092	1,529	—		5,621
Ending Balance	\$1,050,001	\$ 445,655	\$ 274,134		\$1,769,790

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

	Unpaid Principal Balance	Recorded Investment	March 31, 2016		Interest Income Recognized	Cash Basis Interest Recognized
			Allowance for Loan Losses Allocated	Average Recorded Investment		
(Dollar amounts in thousands)						
With no related allowance recorded:						
Commercial						
Commercial & Industrial	\$ 1,357	\$ 1,063	\$—	\$ 1,143	\$ —	\$ —
Farmland	—	—	—	—	—	—
Non Farm, Non Residential	3,155	3,155	—	3,178	—	—
Agriculture	—	—	—	—	—	—
All Other Commercial	1,437	1,437	—	1,599	—	—
Residential						
First Liens	28	28	—	29	—	—
Home Equity	—	—	—	—	—	—
Junior Liens	—	—	—	—	—	—
Multifamily	—	—	—	—	—	—
All Other Residential	—	—	—	—	—	—
Consumer						
Motor Vehicle	—	—	—	—	—	—
All Other Consumer	—	—	—	—	—	—
With an allowance recorded:						
Commercial						
Commercial & Industrial	600	600	204	799	—	—
Farmland	—	—	—	—	—	—
Non Farm, Non Residential	1,176	1,176	677	1,296	—	—
Agriculture	—	—	—	—	—	—
All Other Commercial	—	—	—	113	—	—
Residential						
First Liens	684	684	192	779	—	—
Home Equity	—	—	—	—	—	—
Junior Liens	—	—	—	—	—	—
Multifamily	—	—	—	—	—	—
All Other Residential	—	—	—	—	—	—
Consumer						
Motor Vehicle	—	—	—	—	—	—
All Other Consumer	—	—	—	—	—	—
TOTAL	\$ 8,437	\$ 8,143	\$ 1,073	\$ 8,936	\$ —	\$ —

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	December 31, 2015						
	Unpaid Principal	Recorded	Allowance for Loan Losses	Average Recorded Investment	Interest Income	Cash Basis Interest Income	
(Dollar amounts in thousands)	Balance	Investment	Allocated	Investment	Recognized	Recognized	
With no related allowance recorded:							
Commercial							
Commercial & Industrial	\$ 1,516	\$ 1,223	\$—	\$ 1,796	\$	—\$	—
Farmland	—	—	—	—	—	—	—
Non Farm, Non Residential	3,202	3,202	—	2,080	—	—	—
Agriculture	—	—	—	—	—	—	—
All Other Commercial	1,760	1,760	—	1,175	—	—	—
Residential							
First Liens	29	29	—	18	—	—	—
Home Equity	—	—	—	—	—	—	—
Junior Liens	—	—	—	—	—	—	—
Multifamily	—	—	—	—	—	—	—
All Other Residential	—	—	—	—	—	—	—
Consumer							
Motor Vehicle	—	—	—	—	—	—	—
All Other Consumer	—	—	—	—	—	—	—
With an allowance recorded:							
Commercial							
Commercial & Industrial	998	998	212	3,463	—	—	—
Farmland	—	—	—	—	—	—	—
Non Farm, Non Residential	1,415	1,415	741	3,682	—	—	—
Agriculture	—	—	—	—	—	—	—
All Other Commercial	225	225	—	483	—	—	—
Residential							
First Liens	873	873	206	460	—	—	—
Home Equity	—	—	—	—	—	—	—
Junior Liens	—	—	—	—	—	—	—
Multifamily	—	—	—	—	—	—	—
All Other Residential	—	—	—	—	—	—	—
Consumer							
Motor Vehicle	—	—	—	—	—	—	—
All Other Consumer	—	—	—	—	—	—	—
TOTAL	\$ 10,018	\$ 9,725	\$ 1,159	\$ 13,157	\$	—\$	—

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	Three Months Ended March 31, 2015		Cash Basis	
	Average Interest Recorded	Interest Income	Interest Income	Interest Income
(Dollar amounts in thousands)	Investment	Recognized	Recognized	Recognized
With no related allowance recorded:				
Commercial				
Commercial & Industrial	\$589	\$	—\$	—
Farmland	—	—	—	—
Non Farm, Non Residential	—	—	—	—
Agriculture	—	—	—	—
All Other Commercial	274	—	—	—
Residential				
First Liens	—	—	—	—
Home Equity	—	—	—	—
Junior Liens	—	—	—	—
Multifamily	—	—	—	—
All Other Residential	—	—	—	—
Consumer				
Motor Vehicle	—	—	—	—
All Other Consumer	—	—	—	—
With an allowance recorded:				
Commercial				
Commercial & Industrial	6,446	—	—	—
Farmland	—	—	—	—
Non Farm, Non Residential	6,568	—	—	—
Agriculture	—	—	—	—
All Other Commercial	704	—	—	—
Residential				
First Liens	149	—	—	—
Home Equity	—	—	—	—
Junior Liens	—	—	—	—
Multifamily	—	—	—	—
All Other Residential	—	—	—	—
Consumer				
Motor Vehicle	—	—	—	—
All Other Consumer	—	—	—	—
TOTAL	\$14,730	\$	—\$	—

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

	March 31, 2016			
	Loans			
	Past			
	Due Troubled			
	Over Debt			
	90			
	Day			
	Still			
(Dollar amounts in thousands)	Accruing	Accruing	Nonaccrual	Nonaccrual
Commercial				
Commercial & Industrial	\$—	\$5	\$ 413	\$ 2,525
Farmland	—	—	—	108
Non Farm, Non Residential	—	4	3,114	2,174
Agriculture	—	—	—	403
All Other Commercial	—	—	—	1,380
Residential				
First Liens	681	4,178	1,128	5,067
Home Equity	10	—	—	308
Junior Liens	42	—	—	210
Multifamily	—	—	—	—
All Other Residential	—	—	—	106
Consumer				
Motor Vehicle	174	121	2	185
All Other Consumer	5	125	442	782
TOTAL	\$912	\$4,433	\$ 5,099	\$ 13,248

	December 31, 2015			
	Loans			
	Past			
	Due Troubled			
	Over Debt			
	90 Day			
	Still			
(Dollar amounts in thousands)	Accruing	Accruing	Nonaccrual	Nonaccrual
Commercial				
Commercial & Industrial	\$—	\$5	\$ 422	\$ 3,187
Farmland	—	—	—	219
Non Farm, Non Residential	—	6	3,152	2,545
Agriculture	—	—	—	378
All Other Commercial	—	—	—	1,817
Residential				
First Liens	809	4,577	1,034	4,839
Home Equity	10	—	—	320
Junior Liens	45	—	—	211
Multifamily	—	—	—	—
All Other Residential	—	—	—	111
Consumer				
Motor Vehicle	148	—	2	213
All Other Consumer	4	—	400	794

TOTAL \$1,016 \$4,588 \$ 5,010 \$ 14,634

There were no loans covered by loss share agreements with the FDIC included in loans past due over 90 days still on accrual at March 31, 2016 and there were \$37 thousand at December 31, 2015. There were \$255 thousand of covered loans included in non-accrual loans at March 31, 2016 and there were \$242 thousand at December 31, 2015. There were no covered loans at March 31, 2016 or December 31, 2015 that were deemed impaired.

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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.

March 31, 2016						
(Dollar amounts in thousands)	30-59	60-89	Greater	Total	Current	Total
	Days	Days	than 90	Past		
	Past Due	Past Due	Past Due	Past Due		
Commercial						
Commercial & Industrial	\$412	\$483	\$1,290	\$2,185	\$478,929	\$481,114
Farmland	15	—	—	15	110,157	110,172
Non Farm, Non Residential	193	6	288	487	209,322	209,809
Agriculture	194	207	310	711	125,988	126,699
All Other Commercial	219	19	24	262	125,282	125,544
Residential						
First Liens	3,346	168	1,768	5,282	283,242	288,524
Home Equity	27	—	109	136	35,779	35,915
Junior Liens	167	4	189	360	33,310	33,670
Multifamily	93	—	—	93	71,140	71,233
All Other Residential	19	—	—	19	8,740	8,759
Consumer						
Motor Vehicle	2,305	294	190	2,789	252,686	255,475
All Other Consumer	64	54	6	124	22,117	22,241
TOTAL	\$7,054	\$1,235	\$4,174	\$12,463	\$1,756,692	\$1,769,155

December 31, 2015						
(Dollar amounts in thousands)	30-59	60-89	Greater	Total	Current	Total
	Days	Days	than 90	Past		
	Past Due	Past Due	Past Due	Past Due		
Commercial						
Commercial & Industrial	\$326	\$274	\$1,405	\$2,005	\$476,984	\$478,989
Farmland	135	—	—	135	106,725	106,860
Non Farm, Non Residential	1,824	90	310	2,224	206,844	209,068
Agriculture	65	38	324	427	143,116	143,543
All Other Commercial	25	32	—	57	111,484	111,541
Residential						
First Liens	4,960	1,181	1,671	7,812	285,913	293,725
Home Equity	85	23	114	222	37,502	37,724
Junior Liens	179	29	177	385	32,876	33,261
Multifamily	—	—	—	—	70,735	70,735
All Other Residential	15	—	—	15	10,195	10,210
Consumer						
Motor Vehicle	3,212	568	181	3,961	247,882	251,843
All Other Consumer	38	10	5	53	22,238	22,291

TOTAL	\$10,864	\$2,245	\$4,187	\$17,296	\$1,752,494	\$1,769,790
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During the three months ended March 31, 2016 and 2015, the terms of certain loans were modified as troubled debt restructurings (TDRs). The following tables present the activity for TDR's.

	2016			
(Dollar amounts in thousands)	Commercial	Residential	Consumer	Total
January 1,	\$ 3,584	\$ 5,593	\$ 683	\$ 9,860
Added	—	80	88	168
Charged Off	—	(56)	(20)	(76)
Payments	(55)	(332)	(56)	(443)
March 31,	\$ 3,529	\$ 5,285	\$ 695	\$ 9,509
	2015			
(Dollar amounts in thousands)	Commercial	Residential	Consumer	Total
January 1,	\$ 8,955	\$ 5,189	\$ 614	\$ 14,758
Added	—	579	49	628
Charged Off	—	(62)	(40)	(102)
Payments	(120)	(88)	(48)	(256)
March 31,	\$ 8,835	\$ 5,618	\$ 575	\$ 15,028

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 2016 or 2015 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 months ended March 31, 2016 and 2015 did not result in any material charge-offs or additional provision expense.

The Corporation has allocated \$24 thousand and \$138 thousand of specific reserves to customers whose loan terms have been modified in troubled debt restructurings at both March 31, 2016 and 2015, respectively. The Corporation has not committed to lend additional amounts as of March 31, 2016 and 2015 to customers with outstanding loans that are classified as troubled debt restructurings. The charge-offs during the three months ended March 31, 2016 and 2015 were not of any restructurings that had taken place in the previous 12 months.

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.

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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 March 31, 2016 and December 31, 2015, and based on the most recent analysis performed, the risk category of loans by class of loans are as follows:

March 31, 2016

(Dollar amounts in thousands)	Pass	Special Mention	Substandard	Doubtful	Not Rated	Total
Commercial						
Commercial & Industrial	\$426,230	\$17,236	\$ 32,298	\$ 581	\$3,419	\$479,764
Farmland	92,090	8,054	8,496	—	15	108,655
Non Farm, Non Residential	181,758	8,363	19,234	—	—	209,355
Agriculture	102,904	10,015	11,787	26	186	124,918
All Other Commercial	112,941	262	9,560	101		