

FIRST FINANCIAL CORP /IN/
Form 10-Q
August 05, 2015
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For The Quarterly Period Ended June 30, 2015

Commission File Number 0-16759

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

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

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

47807
(Zip Code)

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

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

Yes No .

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

Yes No .

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

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

Accelerated filer
Smaller reporting company

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

Yes No .

As of August 3, 2015, the registrant had outstanding 12,834,116 shares of common stock, without par value.

Table of Contents

FIRST FINANCIAL CORPORATION

FORM 10-Q

INDEX

	Page No.
<u>PART I. Financial Information</u>	
<u>Item 1. Financial Statements:</u>	
<u>Consolidated Balance Sheets</u>	<u>3</u>
<u>Consolidated Statements of Income and Comprehensive Income</u>	<u>4</u>
<u>Consolidated Statements of Shareholders' Equity</u>	<u>5</u>
<u>Consolidated Statements of Cash Flows</u>	<u>7</u>
<u>Notes to Consolidated Financial Statements</u>	<u>8</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>32</u>
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	<u>34</u>
<u>Item 4. Controls and Procedures</u>	<u>37</u>
<u>PART II. Other Information:</u>	
<u>Item 1. Legal Proceedings</u>	<u>38</u>
<u>Item 1A. Risk Factors</u>	<u>38</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>38</u>
<u>Item 3. Defaults upon Senior Securities</u>	<u>38</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>38</u>
<u>Item 5. Other Information</u>	<u>38</u>
<u>Item 6. Exhibits</u>	<u>39</u>
<u>Signatures</u>	<u>40</u>

Table of Contents

Part I – Financial Information

Item 1. Financial Statements

FIRST FINANCIAL CORPORATION

CONSOLIDATED BALANCE SHEETS

(Dollar amounts in thousands, except per share data)

	June 30, 2015 (unaudited)	December 31, 2014
ASSETS		
Cash and due from banks	\$60,613	\$78,102
Federal funds sold	2,000	8,000
Securities available-for-sale	901,550	897,053
Loans:		
Commercial	1,068,832	1,044,522
Residential	445,107	469,172
Consumer	267,884	266,656
	1,781,823	1,780,350
(Less) plus:		
Net deferred loan costs	1,965	1,078
Allowance for loan losses	(19,861	) (18,839
	1,763,927	1,762,589
Restricted stock	10,828	16,404
Accrued interest receivable	11,116	11,593
Premises and equipment, net	50,348	51,802
Bank-owned life insurance	81,568	80,730
Goodwill	39,489	39,489
Other intangible assets	3,572	3,901
Other real estate owned	3,625	3,965
Other assets	45,185	48,857
TOTAL ASSETS	\$2,973,821	\$3,002,485
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest-bearing	\$525,851	\$556,389
Interest-bearing:		
Certificates of deposit exceeding the FDIC insurance limits	48,893	53,733
Other interest-bearing deposits	1,823,830	1,847,075
	2,398,574	2,457,197
Short-term borrowings	84,819	48,015
FHLB advances	10,738	12,886
Other liabilities	80,632	90,173
TOTAL LIABILITIES	2,574,763	2,608,271
Shareholders' equity		
Common stock, \$.125 stated value per share;		
Authorized shares-40,000,000		
Issued shares-14,557,815 in 2015 and 14,538,132 in 2014		
Outstanding shares-12,834,116 in 2015 and 12,942,175 in 2014	1,816	1,815
Additional paid-in capital	72,746	72,405

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

Retained earnings	386,363	377,970	
Accumulated other comprehensive loss	(14,048) (14,529)
Less: Treasury shares at cost-1,723,699 in 2015 and 1,595,957 in 2014	(47,819) (43,447)
TOTAL SHAREHOLDERS' EQUITY	399,058	394,214	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$2,973,821	\$3,002,485	

See accompanying notes.

3

Table of Contents

FIRST FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(Dollar amounts in thousands, except per share data)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
INTEREST INCOME:				
Loans, including related fees	\$20,763	\$21,625	\$41,570	\$43,843
Securities:				
Taxable	3,991	4,298	8,052	8,742
Tax-exempt	1,790	1,766	3,569	3,512
Other	433	426	864	842
TOTAL INTEREST INCOME	26,977	28,115	54,055	56,939
INTEREST EXPENSE:				
Deposits	997	1,233	2,017	2,523
Short-term borrowings	19	22	32	36
Other borrowings	37	254	87	632
TOTAL INTEREST EXPENSE	1,053	1,509	2,136	3,191
NET INTEREST INCOME	25,924	26,606	51,919	53,748
Provision for loan losses	1,150	(356)	2,600	1,604
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	24,774	26,962	49,319	52,144
NON-INTEREST INCOME:				
Trust and financial services	1,253	1,414	2,745	2,903
Service charges and fees on deposit accounts	2,543	2,761	4,869	5,245
Other service charges and fees	3,000	2,989	5,838	5,828
Securities gains/(losses), net	10	(1)	14	(1)
Insurance commissions	1,956	1,852	3,509	3,765
Gain on sales of mortgage loans	542	457	901	833
Other	474	93	1,963	1,103
TOTAL NON-INTEREST INCOME	9,778	9,565	19,839	19,676
NON-INTEREST EXPENSE:				
Salaries and employee benefits	15,084	13,887	30,142	27,983
Occupancy expense	1,702	1,789	3,566	3,714
Equipment expense	1,702	1,904	3,474	3,562
FDIC Expense	450	473	880	960
Other	6,372	5,996	11,241	11,535
TOTAL NON-INTEREST EXPENSE	25,310	24,049	49,303	47,754
INCOME BEFORE INCOME TAXES	9,242	12,478	19,855	24,066
Provision for income taxes	2,319	3,990	5,171	7,747
NET INCOME	6,923	8,488	14,684	16,319
OTHER COMPREHENSIVE INCOME				
Change in unrealized gains/losses on securities, net of reclassifications and taxes	(7,564)	4,116	(2,802)	9,419
Change in funded status of post retirement benefits, net of taxes	819	115	3,283	230
COMPREHENSIVE INCOME	\$178	\$12,719	\$15,165	\$25,968
PER SHARE DATA				

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

Basic and Diluted Earnings per Share	\$0.54	\$0.63	\$1.14	\$1.22
Weighted average number of shares outstanding (in thousands)	12,903	13,355	12,925	13,352

See accompanying notes.

Table of ContentsFIRST FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Three Months Ended

June 30, 2015, and 2014

(Dollar amounts in thousands, except per share data)

(Unaudited)

	Common Stock	Additional Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Treasury Stock	Total
Balance, April 1, 2014	\$1,812	\$71,315	\$364,914	\$(8,551)	\$(30,161)	\$399,329
Net income	—	—	8,488	—	—	8,488
Other comprehensive income	—	—	—	4,231	—	4,231
Omnibus Equity Incentive Plan	—	242	—	—	—	242
Cash dividends, \$.49 per share	—	—	\$(6,544)	—	—	\$(6,544)
Balance, June 30, 2014	\$1,812	\$71,557	\$366,858	\$(4,320)	\$(30,161)	\$405,746
Balance, April 1, 2015	\$1,815	\$72,576	\$385,731	\$(7,303)	\$(43,792)	\$409,027
Net income	—	—	6,923	—	—	6,923
Other comprehensive income (loss)	—	—	—	(6,745)	—	(6,745)
Omnibus Equity Incentive Plan	1	170	—	—	—	171
Treasury shares purchased (118,053 shares)	—	—	—	—	(4,027)	(4,027)
Cash dividends, \$.49 per share	—	—	\$(6,291)	—	—	\$(6,291)
Balance, June 30, 2015	\$1,816	\$72,746	\$386,363	\$(14,048)	\$(47,819)	\$399,058
See accompanying notes.						

Table of ContentsFIRST FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Six Months Ended

June 30, 2015, and 2014

(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, 2014	\$1,811	\$71,074	\$357,083	\$(13,969)	\$(29,804)	\$386,195
Net income	—	—	16,319	—	—	16,319
Other comprehensive income	—	—	—	9,649	—	9,649
Omnibus Equity Incentive Plan	1	483	—	—	—	484
Treasury shares purchased (9,776 shares)	—	—	—	—	(357)	(357)
Cash dividends, \$.49 per share	—	—	(6,544)	—	—	(6,544)
Balance, June 30, 2014	\$1,812	\$71,557	\$366,858	\$(4,320)	\$(30,161)	\$405,746
Balance, January 1, 2015	\$1,815	\$72,405	\$377,970	\$(14,529)	\$(43,447)	\$394,214
Net income	—	—	14,684	—	—	14,684
Other comprehensive income	—	—	—	481	—	481
Omnibus Equity Incentive Plan	1	341	—	—	—	342
Treasury shares purchased (127,742 shares)	—	—	—	—	(4,372)	(4,372)
Cash dividends, \$.49 per share	—	—	(6,291)	—	—	(6,291)
Balance, June 30, 2015	\$1,816	\$72,746	\$386,363	\$(14,048)	\$(47,819)	\$399,058

See accompanying notes.

Table of Contents

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

	Six Months Ended June 30,	
	2015	2014
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	\$14,684	\$16,319
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization (accretion) of premiums and discounts on investments	1,472	1,318
Provision for loan losses	2,600	1,604
Securities (gains) losses	(14	) 1
(Gain) loss on sale of other real estate	(117	) 62
Restricted stock compensation	342	484
Depreciation and amortization	2,810	2,943
Other, net	(1,515	) 1,394
NET CASH FROM OPERATING ACTIVITIES	20,262	24,125
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of securities available-for-sale	1,900	355
Calls, maturities and principal reductions on securities available-for-sale	70,694	65,595
Purchases of securities available-for-sale	(82,893	) (50,051
Loans made to customers, net of repayment	(4,398	) (5,384
Redemption of restricted stock	5,576	—
Purchase of restricted stock	—	(7
Purchase of customer list	(103) —
Proceeds from sales of other real estate owned	969	841
Net change in federal funds sold	6,000	(5,094
Additions to premises and equipment	(924	) (2,701
NET CASH FROM INVESTING ACTIVITIES	(3,179	) 3,554
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net change in deposits	(58,662	) (26,004
Net change in short-term borrowings	36,804	13,828
Maturities of other borrowings	(2,000	) (95,000
Proceeds from other borrowings	—	100,000
Purchase of treasury stock	(4,372	) (357
Dividends paid	(6,342	) (6,405
NET CASH FROM FINANCING ACTIVITIES	(34,572	) (13,938
NET CHANGE IN CASH AND CASH EQUIVALENTS	(17,489	) 13,741
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	78,102	71,033
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$60,613	\$84,774
See accompanying notes.		

Table of ContentsFIRST FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The accompanying June 30, 2015 and 2014 consolidated financial statements are unaudited. The December 31, 2014 consolidated financial statements are as reported in the First Financial Corporation (the "Corporation") 2014 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, 2014.

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 2015 and 2014, 19,683 and 22,019 shares were awarded, respectively. These shares had a grant date value of \$667 thousand and \$708 thousand for 2015 and 2014, 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: (Dollar amounts in thousands)	June 30, 2015				
	Commercial	Residential	Consumer	Unallocated	Total
Beginning balance	\$10,818	\$1,622	\$4,494	\$2,417	\$19,351
Provision for loan losses	160	277	638	75	1,150
Loans charged -off	(272)	(181)	(1,026)	—	(1,479)
Recoveries	225	42	572	—	839
Ending Balance	\$10,931	\$1,760	\$4,678	\$2,492	\$19,861

Allowance for Loan Losses: (Dollar amounts in thousands)	June 30, 2014				
	Commercial	Residential	Consumer	Unallocated	Total
Beginning balance	\$12,453	\$1,581	\$3,864	\$2,510	\$20,408
Provision for loan losses*	(1,051)	(54)	533	(248)	(820)
Loans charged -off	(710)	(633)	(982)	—	(2,325)
Recoveries	158	480	354	—	992
Ending Balance	\$10,850	\$1,374	\$3,769	\$2,262	\$18,255

* Provision before increase of \$464 thousand in 2014 for decrease in FDIC indemnification asset

8

Table of Contents

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: (Dollar amounts in thousands)	June 30, 2015				
	Commercial	Residential	Consumer	Unallocated	Total
Beginning balance	\$10,915	\$1,374	\$4,370	\$2,180	\$18,839
Provision for loan losses	167	653	1,468	312	2,600
Loans charged -off	(608)	(406)	(2,288)	—	(3,302)
Recoveries	457	139	1,128	—	1,724
Ending Balance	\$10,931	\$1,760	\$4,678	\$2,492	\$19,861

Allowance for Loan Losses: (Dollar amounts in thousands)	June 30, 2014				
	Commercial	Residential	Consumer	Unallocated	Total
Beginning balance	\$12,450	\$1,585	\$3,650	\$2,383	\$20,068
Provision for loan losses*	(319)	12	1,333	(121)	905
Loans charged -off	(1,646)	(805)	(2,035)	—	(4,486)
Recoveries	365	582	821	—	1,768
Ending Balance	\$10,850	\$1,374	\$3,769	\$2,262	\$18,255

* Provision before increase of \$699 thousand in 2014 for decrease in FDIC indemnification asset

The following table presents the allocation of the allowance for loan losses and the recorded investment in loans by portfolio segment and based on the impairment method at June 30, 2015 and December 31, 2014.

Allowance for Loan Losses (Dollar amounts in thousands)	June 30, 2015				
	Commercial	Residential	Consumer	Unallocated	Total
Individually evaluated for impairment	\$1,305	\$27	\$—	\$—	\$1,332
Collectively evaluated for impairment	9,411	1,733	4,678	2,492	18,314
Acquired with deteriorated credit quality	215	—	—	—	215
Ending Balance	\$10,931	\$1,760	\$4,678	\$2,492	\$19,861

Loans: (Dollar amounts in thousands)	June 30, 2015			
	Commercial	Residential	Consumer	Total
Individually evaluated for impairment	\$15,767	\$257	\$—	\$16,024
Collectively evaluated for impairment	1,054,233	444,548	269,039	1,767,820
Acquired with deteriorated credit quality	4,291	1,604	—	5,895
Ending Balance	\$1,074,291	\$446,409	\$269,039	\$1,789,739

Allowance for Loan Losses: (Dollar amounts in thousands)	December 31, 2014				
	Commercial	Residential	Consumer	Unallocated	Total
Individually evaluated for impairment	1,911	—	—	—	1,911
Collectively evaluated for impairment	8,733	1,365	4,370	2,180	16,648
Acquired with deteriorated credit quality	271	9	—	—	280
Ending Balance	\$10,915	\$1,374	\$4,370	\$2,180	\$18,839

Table of Contents

Loans (Dollar amounts in thousands)	December 31, 2014			Total
	Commercial	Residential	Consumer	
Individually evaluated for impairment	14,573	33	—	14,606
Collectively evaluated for impairment	1,030,949	468,872	267,880	1,767,701
Acquired with deteriorated credit quality	4,887	1,631	—	6,518
Ending Balance	\$1,050,409	\$470,536	\$267,880	\$1,788,825

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

(Dollar amounts in thousands)	June 30, 2015					
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
With no related allowance recorded:						
Commercial						
Commercial & Industrial	\$6,821	\$5,307	\$—	\$2,161	\$—	\$—
Farmland	—	—	—	—	—	—
Non Farm, Non Residential	3,955	3,955	—	1,318	—	—
Agriculture	—	—	—	—	—	—
All Other Commercial	1,793	1,793	—	780	—	—
Residential						
First Liens	31	31	—	10	—	—
Home Equity	—	—	—	—	—	—
Junior Liens	—	—	—	—	—	—
Multifamily	—	—	—	—	—	—
All Other Residential	—	—	—	—	—	—
Consumer						
Motor Vehicle	—	—	—	—	—	—
All Other Consumer	—	—	—	—	—	—
With an allowance recorded:						
Commercial						
Commercial & Industrial	2,102	1,809	294	4,900	—	—
Farmland	—	—	—	—	—	—
Non Farm, Non Residential	2,350	2,351	919	5,162	—	—
Agriculture	—	—	—	—	—	—
All Other Commercial	552	552	92	653	—	—
Residential						
First Liens	226	226	27	175	—	—
Home Equity	—	—	—	—	—	—
Junior Liens	—	—	—	—	—	—
Multifamily	—	—	—	—	—	—
All Other Residential	—	—	—	—	—	—
Consumer						
Motor Vehicle	—	—	—	—	—	—
All Other Consumer	—	—	—	—	—	—
TOTAL	\$17,830	\$16,024	\$1,332	\$15,159	\$—	\$—

Table of Contents

(Dollar amounts in thousands)	Unpaid Principal Balance	Recorded Investment	December 31, 2014		Interest Income Recognized	Cash Basis Interest Income Recognized
			Allowance for Loan Losses Allocated	Average Recorded Investment		
With no related allowance recorded:						
Commercial						
Commercial & Industrial	\$1,200	\$926	\$—	\$2,589	\$—	\$—
Farmland	—	—	—	—	—	—
Non Farm, Non Residential	—	—	—	58	—	—
Agriculture	—	—	—	—	—	—
All Other Commercial	292	292	—	58	—	—
Residential						
First Liens	—	—	—	5	—	—
Home Equity	—	—	—	—	—	—
Junior Liens	—	—	—	—	—	—
Multifamily	—	—	—	—	—	—
All Other Residential	—	—	—	—	—	—
Consumer						
Motor Vehicle	—	—	—	—	—	—
All Other Consumer	—	—	—	—	—	—
With an allowance recorded:						
Commercial						
Commercial & Industrial	7,388	5,874	1,056	6,177	—	—
Farmland	—	—	—	—	—	—
Non Farm, Non Residential	6,654	6,654	753	6,698	—	—
Agriculture	—	—	—	—	—	—
All Other Commercial	827	827	102	1,112	—	—
Residential						
First Liens	33	33	—	35	—	—
Home Equity	—	—	—	—	—	—
Junior Liens	—	—	—	—	—	—
Multifamily	—	—	—	—	—	—
All Other Residential	—	—	—	—	—	—
Consumer						
Motor Vehicle	—	—	—	—	—	—
All Other Consumer	—	—	—	—	—	—
TOTAL	\$16,394	\$14,606	\$1,911	\$16,732	\$—	\$—

Table of Contents

	Three Months Ended June 30, 2015			Six Months Ended June 30, 2015		
	Average Recorded	Interest Income Recognized	Cash Basis Interest Income Recognized	Average Recorded	Interest Income Recognized	Cash Basis Interest Income Recognized
(Dollar amounts in thousands)	Investment			Investment		
With no related allowance recorded:						
Commercial						
Commercial & Industrial	\$2,779	\$—	\$—	\$2,161	\$—	\$—
Farmland	—	—	—	—	—	—
Non Farm, Non Residential	1,978	—	—	1,318	—	—
Agriculture	—	—	—	—	—	—
All Other Commercial	1,025	—	—	780	—	—
Residential						
First Liens	16	—	—	10	—	—
Home Equity	—	—	—	—	—	—
Junior Liens	—	—	—	—	—	—
Multifamily	—	—	—	—	—	—
All Other Residential	—	—	—	—	—	—
Consumer						
Motor Vehicle	—	—	—	—	—	—
All Other Consumer	—	—	—	—	—	—
With an allowance recorded:						
Commercial						
Commercial & Industrial	4,413	—	—	4,900	—	—
Farmland	—	—	—	—	—	—
Non Farm, Non Residential	4,417	—	—	5,162	—	—
Agriculture	—	—	—	—	—	—
All Other Commercial	566	—	—	653	—	—
Residential						
First Liens	246	—	—	175	—	—
Home Equity	—	—	—	—	—	—
Junior Liens	—	—	—	—	—	—
Multifamily	—	—	—	—	—	—
All Other Residential	—	—	—	—	—	—
Consumer						
Motor Vehicle	—	—	—	—	—	—
All Other Consumer	—	—	—	—	—	—
TOTAL	\$15,440	\$—	\$—	\$15,159	\$—	\$—

Table of Contents

	Three Months Ended June 30, 2014			Six Months Ended June 30, 2014		
	Average Recorded	Interest Income	Cash Basis Interest Income	Average Recorded	Interest Income	Cash Basis Interest Income
(Dollar amounts in thousands)	Investment	Recognized	Recognized	Investment	Recognized	Recognized
With no related allowance recorded:						
Commercial						
Commercial & Industrial	\$1,080	\$—	\$—	\$1,359	\$—	\$—
Farmland	—	—	—	—	—	—
Non Farm, Non Residential	93	—	—	97	—	—
Agriculture	—	—	—	—	—	—
All Other Commercial	—	—	—	—	—	—
Residential						
First Liens	—	—	—	—	—	—
Home Equity	—	—	—	—	—	—
Junior Liens	—	—	—	—	—	—
Multifamily	—	—	—	—	—	—
All Other Residential	—	—	—	—	—	—
Consumer						
Motor Vehicle	—	—	—	—	—	—
All Other Consumer	—	—	—	—	—	—
With an allowance recorded:						
Commercial						
Commercial & Industrial	7,466	—	—	7,850	—	—
Farmland	—	—	—	—	—	—
Non Farm, Non Residential	6,397	—	—	6,666	—	—
Agriculture	—	—	—	—	—	—
All Other Commercial	1,207	—	—	1,159	—	—
Residential						
First Liens	36	—	—	36	—	—
Home Equity	—	—	—	—	—	—
Junior Liens	—	—	—	—	—	—
Multifamily	—	—	—	—	—	—
All Other Residential	—	—	—	—	—	—
Consumer						
Motor Vehicle	—	—	—	—	—	—
All Other Consumer	—	—	—	—	—	—
TOTAL	\$16,279	\$—	\$—	\$17,167	\$—	\$—

Table of Contents

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

(Dollar amounts in thousands)	June 30, 2015			
	Loans Past Due Over 90 Day Still Accruing	Troubled Debt Accruing	Nonaccrual	Nonaccrual
Commercial				
Commercial & Industrial	\$—	\$5	\$4,793	\$4,002
Farmland	—	—	—	228
Non Farm, Non Residential	—	9	3,898	3,419
Agriculture	—	—	—	537
All Other Commercial	—	—	—	2,334
Residential				
First Liens	626	4,597	1,007	4,275
Home Equity	24	—	—	306
Junior Liens	63	—	—	157
Multifamily	—	—	—	—
All Other Residential	—	—	—	99
Consumer				
Motor Vehicle	38	208	15	137
All Other Consumer	5	21	414	1,059
TOTAL	\$756	\$4,840	\$10,127	\$16,553

(Dollar amounts in thousands)	December 31, 2014			
	Loans Past Due Over 90 Day Still Accruing	Troubled Debt Accruing	Nonaccrual	Nonaccrual
Commercial				
Commercial & Industrial	\$—	\$7	\$4,961	\$3,720
Farmland	—	—	—	79
Non Farm, Non Residential	—	10	3,987	3,388
Agriculture	—	—	—	767
All Other Commercial	—	—	—	1,258
Residential				
First Liens	603	4,357	842	3,861
Home Equity	88	—	—	404
Junior Liens	12	—	—	275
Multifamily	—	—	—	—
All Other Residential	5	—	—	111
Consumer				
Motor Vehicle	162	257	83	210
All Other Consumer	3	1	269	961
TOTAL	\$873	\$4,632	\$10,142	\$15,034

There are no loans covered by loss share agreements with the FDIC included in loans past due over 90 days still on accrual at June 30, 2015 and there were \$37 thousand at December 31, 2014. There were \$271 thousand of covered loans included in non-accrual loans at June 30, 2015 and there were \$274 thousand at December 31, 2014. There were no covered loans at June 30, 2015 or December 31, 2014 that were deemed impaired.

Table of Contents

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.

June 30, 2015						
	30-59 Days	60-89 Days	Greater than 90 days	Total		
(Dollar amounts in thousands)	Past Due	Past Due	Past Due	Past Due	Current	Total
Commercial						
Commercial & Industrial	\$386	\$125	\$3,568	\$4,079	\$495,992	\$500,071
Farmland	—	—	—	—	97,763	97,763
Non Farm, Non Residential	551	223	206	980	217,839	218,819
Agriculture	24	271	27	322	132,839	133,161
All Other Commercial	67	—	—	67	124,410	124,477
Residential						
First Liens	594	703	1,360	2,657	303,745	306,402
Home Equity	182	25	125	332	37,747	38,079
Junior Liens	191	17	158	366	30,533	30,899
Multifamily	—	—	—	—	64,051	64,051
All Other Residential	—	—	—	—	6,978	6,978
Consumer						
Motor Vehicle	2,686	379	38	3,103	244,584	247,687
All Other Consumer	83	16	4	103	21,249	21,352
TOTAL	\$4,764	\$1,759	\$5,486	\$12,009	\$1,777,730	\$1,789,739

December 31, 2014						
	30-59 Days	60-89 Days	Greater than 90 days	Total		
(Dollar amounts in thousands)	Past Due	Past Due	Past Due	Past Due	Current	Total
Commercial						
Commercial & Industrial	\$574	\$416	\$3,046	\$4,036	\$451,549	\$455,585
Farmland	—	—	—	—	95,452	95,452
Non Farm, Non Residential	1,528	68	202	1,798	232,440	234,238
Agriculture	246	18	502	766	149,099	149,865
All Other Commercial	255	—	—	255	115,014	115,269
Residential						
First Liens	6,011	963	1,522	8,496	308,068	316,564
Home Equity	141	33	310	484	40,043	40,527
Junior Liens	270	83	217	570	31,487	32,057
Multifamily	—	—	—	—	72,310	72,310
All Other Residential	112	—	5	117	8,961	9,078
Consumer						
Motor Vehicle	3,026	557	180	3,763	242,406	246,169
All Other Consumer	114	7	3	124	21,587	21,711
TOTAL	\$12,277	\$2,145	\$5,987	\$20,409	\$1,768,416	\$1,788,825

Table of Contents

During the three and six months ended June 30, 2015 and 2014, the terms of certain loans were modified as troubled debt restructurings (TDRs). The following tables present the activity for TDR's.

(Dollar amounts in thousands)	Commercial	2015 Residential	Consumer	Total
April 1,	8,835	5,618	575	15,028
Added	—	73	140	213
Charged Off	—	—	—	—
Payments	(130	) (102	) (58	) (290
June 30,	8,705	5,589	657	14,951

(Dollar amounts in thousands)	Commercial	2015 Residential	Consumer	Total
January 1,	8,955	5,189	614	14,758
Added	—	652	189	841
Charged Off	—	(62	) (40	) (102
Payments	(250	) (190	) (106	) (546
June 30,	8,705	5,589	657	14,951

(Dollar amounts in thousands)	Commercial	2014 Residential	Consumer	Total
April 1,	9,343	4,362	620	21,285
Added	441	668	30	1,139
Charged Off	—	—	(19	) (19
Payments	(578	) (74	) (72	) (724
June 30,	9,206	4,956	559	14,721

(Dollar amounts in thousands)	Commercial	2014 Residential	Consumer	Total
January 1,	12,327	4,330	644	21,285
Added	441	801	98	1,340
Charged Off	(1,069	) —	(39	) (1,108
Payments	(2,493	) (175	) (144	) (2,812
June 30,	9,206	4,956	559	14,721

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 2015 or 2014 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, 2015 and 2014 did not result in any material charge-offs or additional provision expense.

The Corporation has allocated \$47 thousand and \$1.2 million of specific reserves to customers whose loan terms have been modified in troubled debt restructurings at both June 30, 2015 and 2014, respectively. The Corporation has not committed to lend additional amounts as of June 30, 2015 and 2014 to customers with outstanding loans that are classified as troubled debt restructurings. The charge-offs during the three and six months ended June 30, 2015 and 2014 were not of any restructurings that had taken place in the previous 12 months.

Table of Contents

Credit Quality Indicators:

The Corporation categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Corporation analyzes loans individually by classifying the loans as to credit risk. This analysis includes non-homogeneous loans, such as commercial loans, with an outstanding balance greater than \$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, 2015 and December 31, 2014, and based on the most recent analysis performed, the risk category of loans by class of loans are as follows:

	June 30, 2015					
(Dollar amounts in thousands)	Pass	Special Mention	Substandard	Doubtful	Not Rated	Total
Commercial						
Commercial & Industrial	\$429,845	\$36,520	\$23,715	\$2,755	\$5,689	\$498,524
Farmland	85,745	7,747	2,907	—	12	96,411
Non Farm, Non Residential	189,429	6,214	22,659	36	—	218,338
Agriculture	115,653	6,658	9,245	27	156	131,739
All Other Commercial	107,893	6,972	7,191	105	1,659	123,820
Residential						
First Liens	98,064	5,275	8,106	739	193,208	305,392
Home Equity	11,554	451	1,255	11	24,749	38,020
Junior Liens	7,815	120	490	60	22,329	30,814
Multifamily	61,357	—	2,540	—	22	63,919
All Other Residential	1,258	—	26	—	5,678	6,962
Consumer						
Motor Vehicle	11,007	421	386	—	234,826	246,640
All Other Consumer	3,088	109	102	16	17,929	21,244

TOTAL	\$1,122,708	\$70,487	\$78,622	\$3,749	\$506,257	\$1,781,823
-------	-------------	----------	----------	---------	-----------	-------------

17

Table of Contents

(Dollar amounts in thousands)	December 31, 2014					
	Pass	Special Mention	Substandard	Doubtful	Not Rated	Total
Commercial						
Commercial & Industrial	\$393,449	\$29,081	\$24,013	\$2,900	\$4,717	\$454,160
Farmland	85,772	7,618	436	—	13	93,839
Non Farm, Non Residential	186,346	21,765	25,613	36	—	233,760
Agriculture	138,713	7,399	1,746	177	67	148,102
All Other Commercial	101,942	4,356	7,055	33	1,275	114,661
Residential						
First Liens	104,854	5,929	7,733	1,035	196,008	315,559
Home Equity	12,592	375	1,374	6	26,116	40,463
Junior Liens	8,112	173	561	63	23,053	31,962
Multifamily	69,080	1,801	1,249	—	3	72,133
All Other Residential	1,799	—	28	—	7,228	9,055
Consumer						
Motor Vehicle	11,135	402	224	—	233,302	245,063
All Other Consumer	3,169	141	87	21	18,175	21,593
TOTAL	\$1,116,963	\$79,040	\$70,119	\$4,271	\$509,957	\$1,780,350

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, 2015			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Government agencies	\$1,298	\$61	\$—	\$1,359
Mortgage Backed Securities - Residential	183,601	6,060	(914)	) 188,747
Mortgage Backed Securities - Commercial	13	—	—	13
Collateralized Mortgage Obligations	489,361	2,548	(7,114)	) 484,795
State and Municipal Obligations	205,649	6,994	(873)	) 211,770
Collateralized Debt Obligations	9,864	5,004	(2)	) 14,866
TOTAL	\$889,786	\$20,667	\$(8,903)	) \$901,550

(Dollar amounts in thousands)	December 31, 2014			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Government agencies	\$1,411	\$56	\$—	\$1,467
Mortgage Backed Securities-residential	180,673	7,593	(330)	) 187,936
Mortgage Backed Securities-commercial	17	—	—	17
Collateralized mortgage obligations	489,765	2,513	(7,623)	) 484,655
State and municipal	198,875	9,019	(219)	) 207,675
Collateralized debt obligations	10,205	5,115	(17)	) 15,303
TOTAL	\$880,946	\$24,296	\$(8,189)	) \$897,053

Table of Contents

Contractual maturities of debt securities at June 30, 2015 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	\$ 3,855	\$ 3,885
Due after one but within five years	41,236	42,532
Due after five but within ten years	88,932	92,071
Due after ten years	82,788	89,507
	216,811	227,995
Mortgage-backed securities and collateralized mortgage obligations	672,975	673,555
TOTAL	\$ 889,786	\$ 901,550

There were \$10 thousand in gross gains and no losses from investment sales realized by the Corporation for the three months ended June 30, 2015. For the six months ended June 30, 2015 there were \$14 thousand in gross gains and no losses. For the three and six months ended June 30, 2014 there were \$(1) thousand in gross 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, 2015 and December 31, 2014.

(Dollar amounts in thousands)	June 30, 2015					
	Less Than 12 Months		More Than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage Backed Securities - Residential	\$18,799	\$(478)	\$45,963	\$(436)	\$64,762	\$(914)
Collateralized mortgage obligations	156,426	(5,449)	151,452	(1,665)	307,878	(7,114)
State and municipal obligations	4,342	(145)	34,636	(728)	38,978	(873)
Collateralized Debt Obligations	—	—	56	(2)	56	(2)
Total temporarily impaired securities	\$179,567	\$(6,072)	\$232,107	\$(2,831)	\$411,674	\$(8,903)

(Dollar amounts in thousands)	December 31, 2014					
	Less Than 12 Months		More Than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage Backed Securities - Residential	\$—	\$—	\$23,849	\$(330)	\$23,849	\$(330)
Collateralized mortgage obligations	50,832	(128)	264,940	(7,495)	315,772	(7,623)
State and municipal obligations	6,500	(35)	10,547	(184)	17,047	(219)
Collateralized Debt Obligations	—	—	200	(17)	200	(17)
Total temporarily impaired securities	\$57,332	\$(163)	\$299,536	\$(8,026)	\$356,868	\$(8,189)

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.

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

Table of Contents

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 \$8.9 million as of June 30, 2015 and \$8.2 million as of December 31, 2014. 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 is no OTTI in 2015 or 2014.

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 4.4 to 90.3 while Moody Investor Service pricing ranges from .32 to 90.5, 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, 2015 and 2014:

(Dollar amounts in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Beginning balance	\$ 13,995	\$ 14,079	\$ 14,050	\$ 14,079
Increases to the amount related to the credit				
Loss for which other-than-temporary was previously recognized	—	—	—	—
Reductions for increases in cash flows collected	—	—	(55) —
Amounts realized for securities sold during the period	—	—	—	—
Ending balance	\$ 13,995	\$ 14,079	\$ 13,995	\$ 14,079

4. Fair Value

FASB ASC No. 820-10 establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) of identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level I prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The fair value of 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 &

Table of Contents

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, 2015			
	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)			
(Dollar amounts in thousands)	Level 1	Level 2	Level 3	Total
U.S. Government agencies	\$—	\$1,359	\$—	\$1,359
Mortgage Backed Securities-residential	—	188,747	—	188,747
Mortgage Backed Securities-commercial	—	13	—	13
Collateralized mortgage obligations	—	484,795	—	484,795
State and municipal	—	207,045	4,725	211,770
Collateralized debt obligations	—	—	14,866	14,866
TOTAL	\$—	\$881,959	\$19,591	\$901,550
Derivative Assets		997		
Derivative Liabilities		(997)	
		December 31, 2014		
		Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		
(Dollar amounts in thousands)	Level 1	Level 2	Level 3	Total
U.S. Government agencies	\$—	\$1,467	\$—	\$1,467
Mortgage Backed Securities-residential	—	187,936	—	187,936
Mortgage Backed Securities-commercial	—	17	—	17
Collateralized mortgage obligations	—	484,655	—	484,655
State and municipal	—	201,775	5,900	207,675
Collateralized debt obligations	—	—	15,303	15,303
TOTAL	\$—	\$875,850	\$21,203	\$897,053
Derivative Assets		1,062		
Derivative Liabilities		(1,062)	

There were no transfers between Level 1 and Level 2 during 2015 and 2014.

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, 2015 and the year ended December 31, 2014.

Table of Contents

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Three Months Ended June 30, 2015		
	State and municipal obligations	Collateralized debt obligations	Total
Beginning balance, April 1	\$4,725	\$15,308	\$20,033
Total realized/unrealized gains or losses Included in earnings	—	—	—
Included in other comprehensive income	—	(350)	(350)
Transfers	—	—	—
Settlements	—	(92)	(92)
Ending balance, June 30	\$4,725	\$14,866	\$19,591

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Six Months Ended June 30, 2015		
	State and municipal obligations	Collateralized debt obligations	Total
Beginning balance, January 1	\$5,900	\$15,303	\$21,203
Total realized/unrealized gains or losses Included in earnings	—	—	—
Included in other comprehensive income	—	(185)	(185)
Transfers	—	—	—
Settlements	(1,175)	(252)	(1,427)
Ending balance, June 30	\$4,725	\$14,866	\$19,591

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Year Ended December 31, 2014		
	State and municipal obligations	Collateralized debt obligations	Total
Beginning balance, January 1	\$4,525	\$9,044	\$13,569
Total realized/unrealized gains or losses Included in earnings	—	—	—
Included in other comprehensive income	—	7,100	7,100
Purchases	4,000	—	4,000
Settlements	(2,625)	(841)	(3,466)
Ending balance, December 31	\$5,900	\$15,303	\$21,203

Table of Contents

The following table presents quantitative information about recurring and non-recurring Level 3 fair value measurements at June 30, 2015.

	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range
State and municipal obligations	\$4,725	Discounted cash flow	Discount rate Probability of default	3.05%-5.50% 0%
Other real estate	\$3,625	Sales comparison/income approach	Discount rate for age of appraisal and market conditions	5.00%-20.00%
Impaired Loans	\$3,605	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, 2014.

	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range
State and municipal obligations	\$5,900	Discounted cash flow	Discount rate Probability of default	3.05%-5.50% 0%
Other real estate	\$3,965	Sales comparison/income approach	Discount rate for age of appraisal and market conditions	5.00%-20.00%
Impaired Loans	11,477	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 \$3.6 million, after a valuation allowance of \$1.3 million at June 30, 2015 and at a fair value of \$11.5 million, net of a valuation allowance of \$1.9 million at December 31, 2014. The impact to the provision for loan losses for the three months ended June 30, 2015 and for the 12 months ended December 31, 2014 was a \$579 thousand decrease and a \$1.2 million decrease, respectively. Other real estate owned is valued at Level 3. Other real estate owned at June 30, 2015 with a value of \$3.6 million was reduced \$0.9 million for fair value adjustment. At June 30, 2015 other real estate owned was comprised of \$2.9 million from commercial loans and \$0.7 million from residential loans. Other real estate owned at December 31, 2014 with a value of \$4.0 million was reduced \$1.1 million for fair value adjustment. At December 31, 2014 other real estate owned was comprised of \$3.0 million from commercial loans and \$1.0 million 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 that real estate collateral. Other real estate and impaired loans carried at fair value are primarily comprised of smaller balance properties.

Table of Contents

The following tables presents loans identified as impaired by class of loans as of June 30, 2015 and December 31, 2014, which are all considered Level 3.

(Dollar amounts in thousands)	June 30, 2015		Fair Value
	Carrying Value	Allowance for Loan Losses Allocated	
Commercial			
Commercial & Industrial	\$1,809	\$294	\$1,515
Farmland	—	—	—
Non Farm, Non Residential	2,350	919	1,431
Agriculture	—	—	—
All Other Commercial	552	92	460
Residential			
First Liens	226	27	199
Home Equity	—	—	—
Junior Liens	—	—	—
Multifamily	—	—	—
All Other Residential	—	—	—
Consumer			
Motor Vehicle	—	—	—
All Other Consumer	—	—	—
TOTAL	\$4,937	\$1,332	\$3,605
		December 31, 2014	
(Dollar amounts in thousands)	Carrying Value	Allowance for Loan Losses Allocated	Fair Value
Commercial			