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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 September 30, 2012

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 x No o.

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 x No o.

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 o	Accelerated filer x
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x.

As of November 5, 2012, the registrant had outstanding 13,237,523 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)

	September 30, 2012 (Unaudited)	December 31, 2011
ASSETS		
Cash and due from banks	$ 63,638	$ 134,280
Federal funds sold and short-term investments	55,773	11,725
Securities available-for-sale	656,506	666,287
Loans:		
Commercial	1,078,449	1,099,324
Residential	507,446	505,600
Consumer	273,196	289,717
	1,859,091	1,894,641
Less:		
Unearned Income	(930)	(962)
Allowance for loan losses	(21,457)	(19,241)
	1,836,704	1,874,438
Restricted Stock	21,296	22,282
Accrued interest receivable	12,785	12,947
Premises and equipment, net	44,722	40,105
Bank-owned life insurance	76,280	82,646
Goodwill	37,612	37,612
Other intangible assets	4,216	5,142
Other real estate owned	8,670	4,964
FDIC Indemnification asset	1,602	2,384
Other assets	59,437	59,964
TOTAL ASSETS	$ 2,879,241	$ 2,954,776
LIABILITIES AND SHAREHOLDERS EQUITY		
Deposits:		
Noninterest-bearing	$ 430,619	$ 435,236
Interest-bearing:		
Certificates of deposit of $100 or more	233,814	242,001
Other interest-bearing deposits	1,595,237	1,597,262
	2,259,670	2,274,499
Short-term borrowings	43,997	100,022
Other borrowings	125,863	146,427
Other liabilities	80,950	86,867
TOTAL LIABILITIES	2,510,480	2,607,815
Shareholders equity		

Common stock, $.125 stated value per share;				
Authorized shares-40,000,000				
Issued shares-14,490,609 in 2012 and 14,450,966 in 2011				
Outstanding shares-13,237,523 in 2012 and 13,197,880 in 2011		1,808		1,806
Additional paid-in capital		69,692		69,328
Retained earnings		336,147		318,130
Accumulated other comprehensive income (loss)		(7,077)		(10,494)
Treasury shares at cost-1,253,086 in 2012 and 2011		(31,809)		(31,809)
TOTAL SHAREHOLDERS EQUITY		368,761		346,961
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$	2,879,241	$	2,954,776

See accompanying notes.

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FIRST FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(Dollar amounts in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012 (unaudited)	**2011 (unaudited)**	**2012 (unaudited)**	**2011 (unaudited)**
INTEREST INCOME:				
Loans, including related fees	$ 24,725	$ 22,943	$ 75,149	$ 68,903
Securities:				
Taxable	3,308	4,016	10,339	12,532
Tax-exempt	1,827	1,712	5,442	5,075
Other	568	479	1,781	1,426
TOTAL INTEREST INCOME	30,428	29,150	92,711	87,936
INTEREST EXPENSE:				
Deposits	1,881	2,974	6,714	9,339
Short-term borrowings	33	56	116	151
Other borrowings	1,108	1,216	3,648	3,628
TOTAL INTEREST EXPENSE	3,022	4,246	10,478	13,118
NET INTEREST INCOME	27,406	24,904	82,233	74,818
Provision for loan losses	2,559	1,360	7,304	3,894
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	24,847	23,544	74,929	70,924
NON-INTEREST INCOME:				
Trust and financial services	1,413	1,002	4,332	3,530
Service charges and fees on deposit accounts	2,560	2,305	7,166	6,808
Other service charges and fees	2,506	2,142	7,237	6,223
Securities gains/(losses), net	17		677	7
Total impairment losses		(13)	(11)	(110)
Loss recognized in other comprehensive loss				
Net impairment loss recognized in earnings		(13)	(11)	(110)
Insurance commissions	1,736	1,935	5,426	5,328
Gain on sales of mortgage loans	1,253	406	2,970	1,144
Other	203	1,133	1,159	2,168
TOTAL NON-INTEREST INCOME	9,688	8,910	28,956	25,098
NON-INTEREST EXPENSE:				
Salaries and employee benefits	13,695	11,475	42,005	34,430
Occupancy expense	1,465	1,171	4,370	3,624
Equipment expense	1,335	1,079	4,016	3,308
FDIC Expense	494	161	1,449	1,440
Other	5,975	4,667	17,646	14,113
TOTAL NON-INTEREST EXPENSE	22,964	18,553	69,486	56,915
INCOME BEFORE INCOME TAXES	11,571	13,901	34,399	39,107
Provision for income taxes	3,480	4,087	10,160	12,073
NET INCOME	8,091	9,814	24,239	27,034
OTHER COMPREHENSIVE INCOME				
Change in unrealized gains/losses on securities, net of reclassifications	3,123	6,322	3,763	21,828
Tax effect	(1,249)	(2,529)	(1,505)	(8,731)
	1,874	3,793	2,258	13,097
Change in funded status of post retirement benefits	645	505	1,932	1,513

Tax effect		(258)		(202)		(773)		(605)
		387		303		1,159		908
TOTAL OTHER COMPREHENSIVE INCOME		2,261		4,096		3,417		14,005
COMPREHENSIVE INCOME	$	10,352	$	13,910	$	27,656	$	41,039
PER SHARE DATA								
Basic and Diluted	$	0.61	$	0.75	$	1.83	$	2.06
Dividends per Share	$		$		$	0.47	$	0.47
Weighted average number of shares outstanding (in thousands)		13,238		13,152		13,233		13,152

See accompanying notes.

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FIRST FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

Three Months Ended

September 30, 2012, and 2011

(Dollar amounts in thousands, except per share data)

(Unaudited)

	Common Stock	Additional Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Treasury Stock	Total
Balance, July 1, 2012	$ 1,807	$ 69,571	$ 328,056	$ (9,338)	$ (31,809)	$ 358,287
Net income			8,091			8,091
Change in net unrealized gains/(losses) on securities available for-sale, net of tax				1,874		1,874
Change in funded status of retirement plans, net of tax				387		387
Omnibus Equity Incentive Plan	1	121				122
Balance, September 30, 2012	$ 1,808	$ 69,692	$ 336,147	$ (7,077)	$ (31,809)	$ 368,761
Balance, July 1, 2011	$ 1,806	$ 68,944	$ 304,358	$ 540	$ (32,983)	$ 342,665
Net income			9,814			9,814
Change in net unrealized gains/(losses) on securities available for-sale, net of tax				3,793		3,793
Change in funded status of retirement plans, net of tax				303		303
Balance, September 30, 2011	$ 1,806	$ 68,944	$ 314,172	$ 4,636	$ (32,983)	$ 356,575

See accompanying notes.

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FIRST FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

Nine Months Ended

September 30, 2012, and 2011

(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, 2012	$ 1,806	$ 69,328	$ 318,130	$ (10,494)	$ (31,809)	$ 346,961
Net income			24,239			24,239
Change in net unrealized gains/(losses) on securities available for-sale, net of tax				2,258		2,258
Change in funded status of retirement plans, net of tax				1,159		1,159
Omnibus Equity Incentive Plan	2	364				366
Cash Dividends, $.47 per share			(6,222)			(6,222)
Balance, September 30, 2012	$ 1,808	$ 69,692	$ 336,147	$ (7,077)	$ (31,809)	$ 368,761
Balance, January 1, 2011	$ 1,806	$ 68,944	$ 293,319	$ (9,369)	$ (32,983)	$ 321,717
Net income			27,034			27,034
Change in net unrealized gains/(losses) on securities available for-sale, net of tax				13,097		13,097
Change in funded status of retirement plans, net of tax				908		908
Cash Dividends, $.47 per share			(6,181)			(6,181)
Balance, September 30, 2011	$ 1,806	$ 68,944	$ 314,172	$ 4,636	$ (32,983)	$ 356,575

See accompanying notes.

FIRST FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollar amounts in thousands, except per share data)

	Nine Months Ended September 30, 2012 (Unaudited)	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	$ 24,239	$ 27,034
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization (accretion) of premiums and discounts on investments	2,209	11
Provision for loan losses	7,304	3,894
Securities (gains) losses	(677)	(7)
Securities impairment loss	11	110
Gain on exchange of bank owned life insurance		(928)
(Gain) loss on sale of other real estate	46	232
Restricted stock compensation	366	
Depreciation and amortization	3,741	2,329
Other, net	2,345	(5,300)
NET CASH FROM OPERATING ACTIVITIES	39,584	27,375
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of securities available-for-sale	9,015	3,368
Redemption of restricted stock	1,172	
Purchases of restricted stock	(186)	
Purchases of customer list	(114)	
Redemption of bank owned life insurance	7,319	
Purchases of bank owned life insurance	(1,551)	(4,500)
Calls, maturities and principal reductions on securities available-for-sale	99,465	98,661
Purchases of securities available-for-sale	(96,953)	(127,003)
Loans made to customers, net of repayment	24,248	(23,755)
Proceeds from sales of other real estate owned	3,210	3,285
Net change in federal funds sold	(44,048)	5,104
Additions to premises and equipment	(7,318)	(374)
NET CASH FROM INVESTING ACTIVITIES	(5,741)	(45,214)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net change in deposits	(15,945)	23,857
Net change in short-term borrowings	(56,025)	6,531
Dividends paid	(12,425)	(12,231)
Repayments on other borrowings	(20,090)	(1,583)
NET CASH FROM FINANCING ACTIVITIES	(104,485)	16,574
NET CHANGE IN CASH AND CASH EQUIVALENTS	(70,642)	(1,265)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	134,280	58,511
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 63,638	$ 57,246

See accompanying notes.

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FIRST FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The accompanying September 30, 2012 and 2011 consolidated financial statements are unaudited. The December 31, 2011 consolidated financial statements are as reported in the First Financial Corporation (the Corporation) 2011 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, 2011.

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 2012, 39,643 shares were awarded. These shares had a grant date value of $1.4 million, 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 September 30.

Allowance for Loan Losses:			September 30, 2012		
(Dollar amounts in thousands)	**Commercial**	**Residential**	**Consumer**	**Unallocated**	**Total**
Beginning balance	$ 13,190	$ 2,124	$ 3,744	$ 1,034	$ 20,092
Provision for loan losses*	765	1,594	196	85	2,640
Loans charged -off	(715)	(381)	(779)		(1,875)
Recoveries	167	36	397		600
Ending Balance	$ 13,407	$ 3,373	$ 3,558	$ 1,119	$ 21,457

* Provision before decrease of $81 thousand in 2012 for increase in FDIC indemnification asset

Allowance for Loan Losses:			**September 30, 2011**		
(Dollar amounts in thousands)	**Commercial**	**Residential**	**Consumer**	**Unallocated**	**Total**
Beginning balance	$ 12,886	$ 3,564	$ 3,978	$ 1,197	$ 21,625
Provision for loan losses*	(422)	727	545	785	1,635
Loans charged -off	(536)	(325)	(802)		(1,663)
Recoveries	310		221		531
Ending Balance	$ 12,238	$ 3,966	$ 3,942	$ 1,982	$ 22,128

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

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

Allowance for Loan Losses:			**September 30, 2012**		
(Dollar amounts in thousands)	**Commercial**	**Residential**	**Consumer**	**Unallocated**	**Total**
Beginning balance	$ 12,119	$ 2,728	$ 3,889	$ 505	$ 19,241
Provision for loan losses*	3,642	2,859	1,185	614	8,300
Loans charged -off	(2,917)	(2,289)	(2,635)		(7,841)
Recoveries	563	75	1,119		1,757
Ending Balance	$ 13,407	$ 3,373	$ 3,558	$ 1,119	$ 21,457

* Provision before decrease of $1.0 million in 2012 for increase in FDIC indemnification asset

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Allowance for Loan Losses:			**September 30, 2011**		
(Dollar amounts in thousands)	**Commercial**	**Residential**	**Consumer**	**Unallocated**	**Total**
Beginning balance	$ 12,809	$ 2,873	$ 4,551	$ 2,103	$ 22,336
Provision for loan losses*	1,587	2,021	578	(121)	4,065
Loans charged -off	(2,903)	(1,015)	(1,993)		(5,911)
Recoveries	745	87	806		1,638
Ending Balance	$ 12,238	$ 3,966	$ 3,942	$ 1,982	$ 22,128

* Provision before increase of $171 thousand in 2011 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 September 30, 2012 and December 31, 2011.

Ending Balance Attributable to Loans:			**September 30, 2012**		
(Dollar amounts in thousands)	**Commercial**	**Residential**	**Consumer**	**Unallocated**	**Total**
Individually evaluated for impairment	$ 4,084	$ 1,468	$	$	$ 5,552
Collectively evaluated for impairment	8,732	1,814	3,558	1,119	15,223
Acquired with deteriorated credit quality	591	91			682
Ending Balance	$ 13,407	$ 3,373	$ 3,558	$ 1,119	$ 21,457

Loans:		**September 30, 2012**		
(Dollar amounts in thousands)	**Commercial**	**Residential**	**Consumer**	**Total**
Individually evaluated for impairment	$ 24,709	$ 6,992	$	$ 31,701
Collectively evaluated for impairment	1,043,521	496,774	274,543	1,814,838
Acquired with deteriorated credit quality	16,655	5,397	7	22,059
Ending Balance	$ 1,084,885	$ 509,163	$ 274,550	$ 1,868,598

Ending Balance Attributable to Loans:			**December 31, 2011**		
(Dollar amounts in thousands)	**Commercial**	**Residential**	**Consumer**	**Unallocated**	**Total**
Individually evaluated for impairment	$ 3,071	$ 190	$	$	$ 3,261
Collectively evaluated for impairment	8,264	2,183	3,889	505	14,841
Acquired with deteriorated credit quality	784	355			1,139
Ending Balance	$ 12,119	$ 2,728	$ 3,889	$ 505	$ 19,241

Loans		**December 31, 2011**		
(Dollar amounts in thousands)	**Commercial**	**Residential**	**Consumer**	**Total**
Individually evaluated for impairment	$ 25,393	$ 2,213	$	$ 27,606
Collectively evaluated for impairment	1,036,963	492,139	291,190	1,820,292
Acquired with deteriorated credit quality	43,389	12,986	11	56,386
Ending Balance	$ 1,105,745	$ 507,338	$ 291,201	$ 1,904,284

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

	September 30, 2012		
(Dollar amounts in thousands)	**Unpaid Principal Balance**	**Recorded Investment**	**Allowance for Loan Losses Allocated**
With no related allowance recorded:			
Commercial			
Commercial & Industrial	$ 2,496	$ 2,496	$
Farmland			
Non Farm, Non Residential			
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	15,389	15,389	3,925
Farmland	891	891	49
Non Farm, Non Residential	7,581	7,581	182
Agriculture			
All Other Commercial	1,315	1,315	56
Residential			
First Liens	1,255	1,255	190
Home Equity	197	197	
Junior Liens			
Multifamily	5,540	5,540	1,278
All Other Residential			
Consumer			
Motor Vehicle			
All Other Consumer			
TOTAL	$ 34,664	$ 34,664	$ 5,680

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	December 31, 2011					
(Dollar amounts in thousands)	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Income Recognized
With no related allowance recorded:						
Commercial						
Commercial & Industrial	$	$	$	$ 1,929	$ 165	$
Farmland						
Non Farm, Non Residential	4,444	4,444		3,262		
Agriculture						
All Other Commercial						
Residential						
First Liens	750	750		150		
Home Equity						
Junior Liens						
Multifamily	250	250		50		
All Other Residential						
Consumer						
Motor Vehicle						
All Other Consumer						
With an allowance recorded:						
Commercial						
Commercial & Industrial	17,890	17,866	2,664	16,746		
Farmland	891	891	49	360		
Non Farm, Non Residential	4,816	4,816	957	8,717		
Agriculture						
All Other Commercial	1,517	1,517	66	1,671		
Residential						
First Liens	1,213	1,213	190	2,014		
Home Equity						
Junior Liens	879	879	347	937		
Multifamily				510		
All Other Residential						
Consumer						
Motor Vehicle						
All Other Consumer						
TOTAL	$ 32,650	$ 32,626	$ 4,273	$ 36,346	$ 165	$

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(Dollar amounts in thousands)	Three Months Ended September 30, 2012 Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Income Recognized	Nine Months Ended September 30, 2012 Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Income Recognized
With no related allowance recorded:						
Commercial						
Commercial & Industrial	$ 2,531	$	$	$ 1,266	$	$
Farmland						
Non Farm, Non Residential	987			2,098		
Agriculture						
All Other Commercial						
Residential						
First Liens				188		
Home Equity						
Junior Liens						
Multifamily				62		
All Other Residential						
Consumer						
Motor Vehicle						
All Other Consumer						
With an allowance recorded:						
Commercial						
Commercial & Industrial	15,427			16,648		
Farmland	891			891		
Non Farm, Non Residential	5,045			4,404		
Agriculture						
All Other Commercial	1,313			1,400		
Residential						
First Liens	1,234			1,224		
Home Equity	99			49		
Junior Liens				220		
Multifamily	2,770			1,385		
All Other Residential						
Consumer						
Motor Vehicle						
All Other Consumer						
TOTAL	$ 30,297	$	$	$ 29,835	$	$

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(Dollar amounts in thousands)	Three Months Ended September 30, 2011 Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Income Recognized	Nine Months Ended September 30, 2011 Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Income Recognized
With no related allowance recorded:						
Commercial						
Commercial & Industrial	$	$	$	$ 2,411	$	$
Farmland						
Non Farm, Non Residential	2,877			2,967		
Agriculture						
All Other Commercial						
Residential						
First Liens						
Home Equity						
Junior Liens						
Multifamily						
All Other Residential						
Consumer						
Motor Vehicle						
All Other Consumer						
With an allowance recorded:						
Commercial						
Commercial & Industrial	18,108	76		16,466	310	1
Farmland	454			227		
Non Farm, Non Residential	9,395			9,692		
Agriculture						
All Other Commercial	1,703			1,710		
Residential						
First Liens	2,518			2,214		
Home Equity						
Junior Liens	887			952		
Multifamily	638			638		
All Other Residential						
Consumer						
Motor Vehicle						
All Other Consumer						
TOTAL	$ 36,580	$ 76	$	$ 37,277	$ 310	$ 1

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The table below presents non-performing loans.

	September 30, 2012		
(Dollar amounts in thousands)	**Loans Past Due Over 90 Day Still Accruing**	**Non-accrual Troubled Debt Restructurings**	**Nonaccrual**
Commercial			
Commercial & Industrial	$ 1,303	$ 11,842	$ 11,231
Farmland	433		908
Non Farm, Non Residential	960	4,937	6,725
Agriculture	4		115
All Other Commercial			5,581
Residential			
First Liens	836	3,866	7,352
Home Equity	19		214
Junior Liens	303		420
Multifamily			7,501
All Other Residential			155
Consumer			
Motor Vehicle	106	676	177
All Other Consumer	6	17	1,534
TOTAL	$ 3,970	$ 21,338	$ 41,913

	December 31, 2011		
(Dollar amounts in thousands)	**Loans Past Due Over 90 Day Still Accruing**	**Non-accrual Troubled Debt Restructurings**	**Nonaccrual**
Commercial			
Commercial & Industrial	$ 317	$ 12,590	$ 9,673
Farmland	74		979
Non Farm, Non Residential	237		12,542
Agriculture			225
All Other Commercial			3,171
Residential			
First Liens	1,150	3,856	7,398
Home Equity	8		
Junior Liens	154	898	1,240
Multifamily			668
All Other Residential	136		171
Consumer			
Motor Vehicle	77		294
All Other Consumer	4		1,741
TOTAL	$ 2,157	$ 17,344	$ 38,102

Covered loans included in loans past due over 90 days still on accrual are $712 thousand at September 30, 2012 and $413 thousand at December 31, 2011. Covered loans included in non-accrual loans are $4.3 million at September 30, 2012 and $5.6 million at December 31, 2011. Covered loans of $3.0 million at September 30, 2012 and $5.0 million at December 31, 2011 are deemed impaired and have allowance for loan loss allocated to them of $129 thousand and $1.0 million, respectively for September 30, 2012 and December 31, 2011. Non-performing loans include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

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

	September 30, 2012					
(Dollar amounts in thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 days Past Due	Total Past Due	Current	Total
Commercial						
Commercial & Industrial	$ 3,039	$ 802	$ 4,311	$ 8,152	$ 460,964	$ 469,116
Farmland	22	164	1,325	1,511	88,762	90,273
Non Farm, Non Residential	812	227	2,753	3,792	315,500	319,292
Agriculture	239	191	15	445	115,501	115,946
All Other Commercial	453	57	608	1,118	89,140	90,258
Residential						
First Liens	1,846	965	4,532	7,343	351,053	358,396
Home Equity	119	22	19	160	43,750	43,910
Junior Liens	314	199	352	865	38,454	39,319
Multifamily		1,830	5,602	7,432	49,219	56,651
All Other Residential		170		170	10,717	10,887
Consumer						
Motor Vehicle	4,189	391	112	4,692	245,730	250,422
All Other Consumer	217	57	6	280	23,848	24,128
TOTAL	$ 11,250	$ 5,075	$ 19,635	$ 35,960	$ 1,832,638	$ 1,868,598

	December 31, 2011					
(Dollar amounts in thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 days Past Due	Total Past Due	Current	Total
Commercial						
Commercial & Industrial	$ 2,717	$ 740	$ 4,452	$ 7,909	$ 472,370	$ 480,279
Farmland	5	57	1,034	1,096	98,158	99,254
Non Farm, Non Residential	2,945	420	7,754	11,119	310,724	321,843
Agriculture	88		97	185	114,162	114,347
All Other Commercial	120		1,588	1,708	88,313	90,021
Residential						
First Liens	11,436	2,016	5,316	18,768	340,269	359,037
Home Equity	175	62	8	245	44,939	45,184
Junior Liens	1,333	183	190	1,706	39,903	41,609
Multifamily		100	668	768	46,216	46,984
All Other Residential	128		136	264	14,261	14,525
Consumer						
Motor Vehicle	3,450	563	77	4,090	260,102	264,192
All Other Consumer	174	48	5	227	26,782	27,009
TOTAL	$ 22,571	$ 4,189	$ 21,325	$ 48,085	$ 1,856,199	$ 1,904,284

The Corporation has allocated $1.7 million and $1.6 million of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of September 30, 2012 and December 31, 2011. The Corporation has not committed to lend additional amounts as of September 30, 2012 and December 31, 2011 to customers with outstanding loans that are classified as troubled debt restructurings. There were $162 thousand in modifications that were troubled debt restructurings in the quarter ended March 31, 2012, $655 thousand for the three months ended June 30, 2012 and $5.06 million for the three months ended September 30, 2012, resulting in no impact to the allowance for loan losses. $4.9 million of the $5.06 added in the third quarter was one non-farm, non residential loan that is collateralized well enough to expect no loss. The remaining $126 thousand added in the third quarter were all other consumer loans. There were $15 thousand in loans that defaulted during the three and nine months ended September 30, 2012 that had been restructured within the past 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 $50 thousand. Any consumer loans outstanding to a borrower who had commercial loans analyzed will be similarly risk rated. This analysis is performed on a quarterly basis. The Corporation uses the following definitions for risk ratings:

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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 listed as not rated are either less than $50 thousand or are included in groups of homogeneous loans.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans. As of September 30, 2012 and December 31, 2011, and based on the most recent analysis performed, the risk category of loans by class of loans are as follows:

	September 30, 2012					
(Dollar amounts in thousands)	**Pass**	**Special Mention**	**Substandard**	**Doubtful**	**Not Rated**	**Total**
Commercial						
Commercial & Industrial	$ 392,252	$ 27,090	$ 39,143	$ 7,416	$ 1,859	$ 467,760
Farmland	80,907	4,809	2,575		110	88,401
Non Farm, Non Residential	267,667	22,505	25,139	952	2,042	318,305
Agriculture	107,179	6,598	365		71	114,213
All Other Commercial	80,871	1,026	6,567	56	1,252	89,772
Residential						
First Liens	112,902	3,824	16,956	945	222,442	357,069
Home Equity	13,298	527	1,628	25	28,352	43,830
Junior Liens	10,855	288	481	71	27,474	39,169
Multifamily	42,504	3,563	8,563	1,899		56,529
All Other Residential	2,832		36		7,979	10,847
Consumer						
Motor Vehicle	11,481	394	349	40	236,951	249,215
All Other Consumer	4,794	99	106	14	18,968	23,981
TOTAL	$ 1,127,542	$ 70,723	$ 101,908	$ 11,418	$ 547,500	$ 1,859,091

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	December 31, 2011					
(Dollar amounts in thousands)	Pass	Special Mention	Substandard	Doubtful	Not Rated	Total
Commercial						
Commercial & Industrial	$ 386,734	$ 25,343	$ 53,026	$ 7,128	$ 6,717	$ 478,948
Farmland	89,213	4,250	3,015	69	619	97,166
Non Farm, Non Residential	254,761	28,684	32,704	4,271	393	320,813
Agriculture	109,869	2,100	623	79	122	112,793
All Other Commercial	77,330	6,097	5,099	67	1,011	89,604
Residential						
First Liens	113,234	5,175	19,895	1,318	218,118	357,740
Home Equity	13,613	520	671	19	30,278	45,101
Junior Liens	11,887	714	783	968	27,105	41,457
Multifamily	35,837	3,911	6,224	606	258	46,836
All Other Residential	4,658	445	53		9,310	14,466
Consumer						
Motor Vehicle	12,988	330	501	59	249,018	262,896
All Other Consumer	6,120	57	141	12	20,491	26,821
TOTAL	$ 1,116,244	$ 77,626	$ 122,735	$ 14,596	$ 563,440	$ 1,894,641

3. Securities

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

	(000 s) September 30, 2012			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Government agencies	$ 1,810	$ 74	$	$ 1,884
Mortgage Backed Securities - Residential	265,685	16,834		282,519
Mortgage Backed Securities - Commercial	48	1		49
Collateralized Mortgage Obligations	162,047	3,141	(113)	165,075
State and Municipal Obligations	188,493	13,361	(33)	201,821
Collateralized Debt Obligations	13,106	486	(8,787)	4,805
Equity Securities	320	33		353
TOTAL	$ 631,509	$ 33,930	$ (8,933)	$ 656,506

	(000 s) December 31, 2011			
	Amortized	Unrealized		
(Dollar amounts in thousands)	Cost	Gains	Losses	Fair Value
U.S. Government agencies	$ 3,979	$ 34	$	$ 4,013

Mortgage Backed Securities-residential	296,646	15,142		311,788
Mortgage Backed Securities-commercial	98	3		101
Collateralized mortgage obligations	144,850	3,097		147,947
State and municipal	183,854	11,738	(11)	195,581
Collateralized debt obligations	14,031	150	(9,410)	4,771
Equities	1,596	490		2,086
TOTAL	$ 645,054	$ 30,654	$ (9,421)	$ 666,287

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Contractual maturities of debt securities at September 30, 2012 were as follows. Securities not due at a single maturity or with no maturity date, primarily mortgage-backed and equity securities are shown separately.

	September 30, 2012 Available-for-Sale	
(Dollar amounts in thousands)	**Amortized Cost**	**Fair Value**
Due in one year or less	$ 8,880	$ 8,997
Due after one but within five years	39,691	41,556
Due after five but within ten years	84,482	89,991
Due after ten years	232,403	233,041
	365,456	373,585
Mortgage-backed securities and equities	266,053	282,921
TOTAL	$ 631,509	$ 656,506

There were $683 thousand in gains and $6 thousand in losses from investment sales, and $11 thousand in losses from OTTI realized by the Corporation for the nine months ended September 30, 2012. For the three months ended September 30, 2012 the gains were $19 thousand and losses were $2 thousand. The $11 thousand of OTTI was realized in the second quarter of 2012. There were $7 thousand in gains from investment sales and $110 thousand in losses from OTTI realized by the Corporation for the nine months ended September 30, 2011.

The following tables show the securities gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in continuous unrealized loss position, at September 30, 2012 and December 31, 2011.

	September 30, 2012					
	Less Than 12 Months		**More Than 12 Months**		**Total**	
(Dollar amounts in thousands)	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
Collateralized Mortgage Obligations	$ 35,579	$ (113)	$	$	$ 35,579	$ (113)
State and municipal obligations	2,369	(33)			2,369	(33)
Collateralized Debt Obligations			3,423	(8,787)	3,423	(8,787)
Total temporarily impaired securities	$ 37,948	$ (146)	$ 3,423	$ (8,787)	$ 41,371	$ (8,933)

	December 31, 2011					
	Less Than 12 Months		**More Than 12 Months**		**Total**	
(Dollar amounts in thousands)	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
State and municipal obligations	$ 1,110	$ (11)	$	$	$ 1,110	$ (11)
Collateralized Debt Obligations			3,603	(9,410)	3,603	(9,410)
Total temporarily impaired securities	$ 1,110	$ (11)	$ 3,603	$ (9,410)	$ 4,713	$ (9,421)

Management evaluates securities for other-than-temporary impairment (OTTI) at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. The investment securities portfolio is evaluated for OTTI by segregating the portfolio into two general segments and applying the appropriate OTTI model. Investment securities are generally evaluated for OTTI under FASB ASC 320, *Investments - Debt and Equity Securities*. However, certain purchased beneficial interests, including non-agency mortgage-backed securities, asset-backed securities, and collateralized debt obligations, that had credit ratings at the time of purchase of below AA are evaluated using the model outlined in FASB ASC 325-40, *Beneficial Interests in Securitized Financial Assets.*

In determining OTTI under the FASB ASC 320 model, management considers many factors, including: (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions, and (4) whether the entity has the intent to sell the security or more likely than not will be required to sell the security before its anticipated recovery. The assessment of whether an other-than-temporary decline exists involves a high degree of subjectivity and judgment and is based on the information available to management at a point in time.

The second segment of the portfolio uses the OTTI guidance provided by FASB ASC 325 that is specific to purchased beneficial interests that, on the purchase date, were rated below AA. Under the FASB ASC 325 model, the Company compares the present value of the remaining cash flows as estimated at the preceding evaluation date to the current expected remaining cash flows. An OTTI is deemed to have occurred if there has been an adverse change in the remaining expected future cash flows.

When OTTI occurs under either model, the amount of the OTTI recognized in earnings depends on whether an entity intends to sell the security or it is more likely than not it will be required to sell the security before recovery of its amortized cost 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 $8.9 million as of September 30, 2012 and $9.4 million as of December 31, 2011. A majority of these losses represent negative adjustments to market value relative to the illiquidity in the markets on the securities and not losses related to the creditworthiness of the issuer. Based upon our review of the issuers, we do not believe 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.

A significant portion of the total unrealized loss in investment securities relates to collateralized debt obligations that were separately evaluated under FASB ASC 325-40, Beneficial Interests in Securitized Financial Assets. Based upon qualitative considerations, such as a down grade in credit rating or further defaults of underlying issuers during the quarter, and an analysis of expected cash flows, we have determined that three of the CDO s included in collateralized debt obligations were other-than-temporarily impaired, though no impairment was identified during the first three quarters of 2012. Those three CDO s have a contractual balance of $28.0 million at September 30, 2012 which has been reduced to $4.2 million by $0.9 million of interest payments received, $14.9 million of cumulative OTTI charges recorded through earnings to date, and $8.0 million recorded in other comprehensive income ($4.8 million after tax effect). The severity of the OTTI recorded varies by security, based on the analysis described below, and ranges at September 30, 2012 from 28% to 87%. The OTTI recorded in other comprehensive income represents OTTI due to factors other than credit loss, mainly current market illiquidity. The issuers in these securities are primarily banks, but some of the pools do include a limited number of insurance companies. The market for these securities has become very illiquid, there are very few new issuances of trust preferred securities and the credit spreads implied by current prices have increased dramatically and remain very high, resulting in significant non-credit related impairment. The Company uses the OTTI evaluation model to compare the present value of expected cash flows to the previous estimate to ensure there are no adverse changes in cash flows during the quarter. The OTTI model considers the structure and term of the CDO and the financial condition of the underlying issuers. Specifically, the model details interest rates, principal balances of note classes and underlying issuers, the timing and amount of interest and principal payments of the underlying issuers, and the allocation of the payments to the note classes. Cash flows are projected using a forward rate LIBOR curve, as these CDOs are variable rate instruments. An average rate is then computed using this same forward rate curve to determine an appropriate discount rate (3 month LIBOR plus margin ranging from 160 to 180 basis points). The current estimate of expected cash flows is based on the most recent trustee reports and any other relevant market information including announcements of interest payment deferrals or defaults of underlying trust preferred securities. Assumptions used in the model include expected future default rates and prepayments. In addition we use the model to stress each CDO, or make assumptions more severe than expected activity, to determine the degree to which assumptions could deteriorate before the CDO could no longer fully support repayment of the Company s note class.

Collateralized debt obligations include an investment in a CDO consisting of pooled trust preferred securities in which the issuers are primarily banks. This CDO with an amortized cost of $830 thousand and a fair value of $572 thousand is rated BAA3 and is the senior tranche, is not in the scope of FASB ASC 325, as it was rated high investment grade at purchase, and is not considered to be other-than-temporarily impaired based on its credit quality. Its fair value is negatively impacted by the factors described above.

Management has consistently used Standard & Poors pricing to value these investments. There are a number of other pricing sources available to determine fair value for these investments. These sources utilize a variety of methods to determine fair value. The result is a wide range of estimates of fair value for these securities. The Standard & Poors pricing ranges from 2.8 to 68.9 while Moody Investor Service pricing ranges from 0.64 to 94.77, with others falling somewhere in between. We recognize that the Standard & Poors pricing utilized is an estimate, but have been consistent in using this source and its estimate of fair value.

Equity securities relate to investments in bank stocks held at the holding company. In the second quarter the Corporation recognized other-than-temporary impairment on an equity security in the amount of $11 thousand. Bank stock values have been negatively impacted by the current economic environment and market pessimism.

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The table below presents a rollforward of the credit losses recognized in earnings for the three and nine month periods ended September 30, 2012 and 2011:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollar amounts in thousands)	**2012**	**2011**	**2012**	**2011**
Beginning balance	$ 14,983	$ 15,167	$ 15,180	$ 15,070
Amounts related to credit loss for which an other-than-temporary impairment was not previously recognized				
Increases to the amount related to the credit loss for which other-than-temporary impairment was previously recognized		13	11	110
Amounts realized for securities sold during the period			(208)	
Ending balance	$ 14,983	$ 15,180	$ 14,983	$ 15,180

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 bank equities and 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 certain investments in bank equities is based on the prices of recent stock trades and is considered Level 3 because these stocks are not publicly traded. The fair value of 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 measurement.

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

	September 30, 2012 Fair Value Measurements Using Significant Unobservable Inputs (Level 3)			
(Dollar amounts in thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
U.S. Government agencies	$	$ 1,884	$	$ 1,884
Mortgage Backed Securities-residential		282,519		282,519
Mortgage Backed Securities-commercial				