

Section 1: 10-Q (10-Q)

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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, 2019

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

Accelerated filer

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

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 7(a)(2)(B) of the Securities Act.

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

Yes No .

As of November 4, 2019, the registrant had outstanding 13,713,355 shares of common stock, without par value.

FIRST FINANCIAL CORPORATION

FORM 10-Q

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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, 2019	December 31, 2018
	(unaudited)	
ASSETS		
Cash and due from banks	\$ 80,193	\$ 74,388
Securities available-for-sale	939,944	784,916
Loans:		
Commercial	1,583,002	1,166,352
Residential	708,056	443,670
Consumer	373,747	341,041
	2,664,805	1,951,063
(Less) plus:		
Net deferred loan costs	3,671	2,925
Allowance for loan losses	(19,799)	(20,436)
	2,648,677	1,933,552
Restricted stock	13,624	10,390
Accrued interest receivable	18,735	13,970
Premises and equipment, net	70,592	46,554
Bank-owned life insurance	97,810	86,186
Goodwill	75,417	34,355
Other intangible assets	11,261	1,197
Other real estate owned	3,717	603
Other assets	28,149	22,607
TOTAL ASSETS	\$ 3,988,119	\$ 3,008,718
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest-bearing	\$ 560,537	\$ 431,923
Interest-bearing:		
Certificates of deposit exceeding the FDIC insurance limits	130,270	42,284
Other interest-bearing deposits	2,529,315	1,962,520
	3,220,122	2,436,727
Short-term borrowings	90,852	69,656
Other borrowings	55,948	—
Other liabilities	64,615	59,634
TOTAL LIABILITIES	3,431,537	2,566,017
Shareholders' equity		
Common stock, \$.125 stated value per share;		
Authorized shares-40,000,000		
Issued shares-16,055,466 in 2019 and 14,612,540 in 2018		
Outstanding shares-13,713,355 in 2019 and 12,278,295 in 2018	2,004	1,824
Additional paid-in capital	139,073	76,774
Retained earnings	484,834	456,716
Accumulated other comprehensive income/(loss)	145	(23,454)
Less: Treasury shares at cost-2,342,111 in 2019 and 2,334,245 in 2018	(69,474)	(69,159)
TOTAL SHAREHOLDERS' EQUITY	556,582	442,701
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 3,988,119	\$ 3,008,718

See accompanying notes.

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,	
	2019	2018	2019	2018
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
INTEREST INCOME:				
Loans, including related fees	\$ 33,363	\$ 25,581	\$ 87,650	\$ 73,982
Securities:				
Taxable	3,907	3,601	11,104	13,141
Tax-exempt	1,959	1,873	5,699	5,573
Other	366	320	1,017	959
TOTAL INTEREST INCOME	39,595	31,375	105,470	93,655
INTEREST EXPENSE:				
Deposits	5,069	2,365	11,202	6,254
Short-term borrowings	305	167	786	354
Other borrowings	222	16	305	63
TOTAL INTEREST EXPENSE	5,596	2,548	12,293	6,671
NET INTEREST INCOME	33,999	28,827	93,177	86,984
Provision for loan losses	1,500	1,470	3,200	4,298
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	32,499	27,357	89,977	82,686
NON-INTEREST INCOME:				
Trust and financial services	1,329	1,133	3,657	3,888
Service charges and fees on deposit accounts	3,227	3,002	8,586	8,733
Other service charges and fees	3,720	3,256	10,242	9,747
Securities gains, net	6	3	18	5
Recovery of security previously written down for OTTI	—	—	—	4,158
Gain on sales of mortgage loans	865	618	1,781	1,458
Other	599	897	2,841	1,984
TOTAL NON-INTEREST INCOME	9,746	8,909	27,125	29,973
NON-INTEREST EXPENSE:				
Salaries and employee benefits	14,031	12,485	39,332	38,028
Occupancy expense	1,804	1,894	5,432	5,308
Equipment expense	2,117	1,673	5,685	5,016
FDIC Expense	155	223	494	673
Other	9,302	6,022	23,651	19,166
TOTAL NON-INTEREST EXPENSE	27,409	22,297	74,594	68,191
INCOME BEFORE INCOME TAXES	14,836	13,969	42,508	44,468
Provision for income taxes	2,579	2,656	8,000	8,941
NET INCOME	12,257	11,313	34,508	35,527
OTHER COMPREHENSIVE INCOME (LOSS)				
Change in unrealized gains/(losses) on securities, net of reclassifications and taxes	4,124	(3,702)	22,689	(16,083)
Change in funded status of post retirement benefits, net of taxes	303	281	910	843
COMPREHENSIVE INCOME	\$ 16,684	\$ 7,892	\$ 58,107	\$ 20,287
PER SHARE DATA				
Basic and Diluted Earnings per Share	\$ 0.93	\$ 0.92	\$ 2.74	\$ 2.90
Weighted average number of shares outstanding (in thousands)	13,141	12,255	12,574	12,253

See accompanying notes.

FIRST FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
Three Months Ended
September 30, 2019, and 2018
(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, 2018	\$ 1,823	\$ 75,995	\$ 440,605	\$ (28,889)	\$ (69,839)	\$ 419,695
Net income	—	—	11,313	—	—	11,313
Other comprehensive loss	—	—	—	(3,421)	—	(3,421)
Omnibus Equity Incentive Plan	1	186	—	—	—	187
Balance, September 30, 2018	<u>\$ 1,824</u>	<u>\$ 76,181</u>	<u>\$ 451,918</u>	<u>\$ (32,310)</u>	<u>\$ (69,839)</u>	<u>\$ 427,774</u>
Balance, July 1, 2019	\$ 1,826	\$ 77,173	\$ 472,577	\$ (4,282)	\$ (69,474)	\$ 477,820
Net income	—	—	12,257	—	—	12,257
Other comprehensive income	—	—	—	4,427	—	4,427
Omnibus Equity Incentive Plan	—	200	—	—	—	200
Acquisition of HopFed, Inc. (1,423,143 shares)	178	61,700	—	—	—	61,878
Balance, September 30, 2019	<u>\$ 2,004</u>	<u>\$ 139,073</u>	<u>\$ 484,834</u>	<u>\$ 145</u>	<u>\$ (69,474)</u>	<u>\$ 556,582</u>

See accompanying notes.

FIRST FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
Nine Months Ended
September 30, 2019, and 2018
(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, 2018	\$ 1,822	\$ 75,624	\$ 420,275	\$ (14,704)	\$ (69,448)	\$ 413,569
Net income	—	—	35,527	—	—	35,527
Other comprehensive loss	—	—	—	(15,240)	—	(15,240)
Omnibus Equity Incentive Plan	2	557	—	—	—	559
Treasury shares purchased (8,639 shares)	—	—	—	—	(391)	(391)
ASU 2018-02 adjustment	—	—	2,366	(2,366)	—	—
Cash dividends, \$.51 per share	—	—	(6,250)	—	—	(6,250)
Balance, September 30, 2018	<u>\$ 1,824</u>	<u>\$ 76,181</u>	<u>\$ 451,918</u>	<u>\$ (32,310)</u>	<u>\$ (69,839)</u>	<u>\$ 427,774</u>
Balance, January 1, 2019	\$ 1,824	\$ 76,774	\$ 456,716	\$ (23,454)	\$ (69,159)	\$ 442,701
Net income	—	—	34,508	—	—	34,508
Other comprehensive income	—	—	—	23,599	—	23,599
Omnibus Equity Incentive Plan	2	599	—	—	—	601
Treasury shares purchased (7,866 shares)	—	—	—	—	(315)	(315)
Acquisition of HopFed, Inc. (1,423,143 shares)	178	61,700	—	—	—	61,878
Cash dividends, \$.52 per share	—	—	(6,390)	—	—	(6,390)
Balance, September 30, 2019	<u>\$ 2,004</u>	<u>\$ 139,073</u>	<u>\$ 484,834</u>	<u>\$ 145</u>	<u>\$ (69,474)</u>	<u>\$ 556,582</u>

See accompanying notes.

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

	Nine Months Ended September 30,	
	2019	2018
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	\$ 34,508	\$ 35,527
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization (accretion) of premiums and discounts on investments	3,425	2,706
Provision for loan losses	3,200	4,298
Securities (gains)	(18)	(5)
(Gain) Loss on sale of other real estate	37	101
Recovery of security previously written down for OTTI	—	(4,158)
Restricted stock compensation	601	559
Depreciation and amortization	3,121	3,126
Other, net	(5,734)	(633)
NET CASH FROM OPERATING ACTIVITIES	39,140	41,521
CASH FLOWS FROM INVESTING ACTIVITIES:		
Calls, maturities and principal reductions on securities available-for-sale	117,532	112,287
Purchases of securities available-for-sale	(71,596)	(102,731)
Loans made to customers, net of repayment	(61,496)	(39,119)
Redemption of restricted stock	1,228	—
Purchase of restricted stock	(34)	(11)
Payments to acquire business	(12,629)	—
Proceeds from sales of other real estate owned	671	1,568
Net change in federal funds sold	—	(7,600)
Additions to premises and equipment	(1,537)	(1,519)
NET CASH FROM INVESTING ACTIVITIES	(27,861)	(37,125)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net change in deposits	26,903	(51,592)
Net change in short-term borrowings	(44,414)	994
Maturities of other borrowings	(192,000)	(55,600)
Proceeds from other borrowings	217,000	90,600
Purchase of treasury stock	(315)	(391)
Dividends paid	(12,648)	(12,496)
NET CASH FROM FINANCING ACTIVITIES	(5,474)	(28,485)
NET CHANGE IN CASH AND CASH EQUIVALENTS	5,805	(24,089)
CASH AND DUE FROM BANKS, BEGINNING OF PERIOD	74,388	74,107
CASH AND DUE FROM BANKS, END OF PERIOD	\$ 80,193	\$ 50,018

See accompanying notes.

FIRST FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The accompanying September 30, 2019 and 2018 consolidated financial statements are unaudited. The December 31, 2018 consolidated financial statements are as reported in the First Financial Corporation (the “Corporation”) 2018 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, 2018.

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. For the six months ended 2019 and 2018, 19,783 and 17,220 shares were awarded, respectively. These shares had a grant date value of \$841 thousand and \$784 thousand for 2019 and 2018, 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: (Dollar amounts in thousands)	September 30, 2019				
	Commercial	Residential	Consumer	Unallocated	Total
Beginning balance	\$ 9,481	\$ 1,323	\$ 7,744	\$ 1,702	\$ 20,250
Provision for loan losses	163	(10)	1,691	(344)	1,500
Loans charged -off	(864)	(256)	(2,082)	—	(3,202)
Recoveries	226	266	759	—	1,251
Ending Balance	<u>\$ 9,006</u>	<u>\$ 1,323</u>	<u>\$ 8,112</u>	<u>\$ 1,358</u>	<u>\$ 19,799</u>

Allowance for Loan Losses: (Dollar amounts in thousands)	September 30, 2018				
	Commercial	Residential	Consumer	Unallocated	Total
Beginning balance	\$ 9,498	\$ 1,382	\$ 7,131	\$ 2,060	\$ 20,071
Provision for loan losses	(106)	(44)	1,593	27	1,470
Loans charged -off	(409)	(158)	(1,781)	—	(2,348)
Recoveries	354	160	594	—	1,108
Ending Balance	<u>\$ 9,337</u>	<u>\$ 1,340</u>	<u>\$ 7,537</u>	<u>\$ 2,087</u>	<u>\$ 20,301</u>

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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: (Dollar amounts in thousands)	September 30, 2019				
	Commercial	Residential	Consumer	Unallocated	Total
Beginning balance	\$ 9,848	\$ 1,313	\$ 7,481	\$ 1,794	\$ 20,436
Provision for loan losses	5	145	3,486	(436)	3,200
Loans charged -off	(1,523)	(675)	(5,019)	—	(7,217)
Recoveries	676	540	2,164	—	3,380
Ending Balance	<u>\$ 9,006</u>	<u>\$ 1,323</u>	<u>\$ 8,112</u>	<u>\$ 1,358</u>	<u>\$ 19,799</u>

Allowance for Loan Losses: (Dollar amounts in thousands)	September 30, 2018				
	Commercial	Residential	Consumer	Unallocated	Total
Beginning balance	\$ 10,281	\$ 1,455	\$ 6,709	\$ 1,464	\$ 19,909
Provision for loan losses	(443)	56	4,062	623	4,298
Loans charged -off	(1,053)	(632)	(5,007)	—	(6,692)
Recoveries	552	461	1,773	—	2,786
Ending Balance	<u>\$ 9,337</u>	<u>\$ 1,340</u>	<u>\$ 7,537</u>	<u>\$ 2,087</u>	<u>\$ 20,301</u>

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, 2019 and December 31, 2018.

Allowance for Loan Losses (Dollar amounts in thousands)	September 30, 2019				
	Commercial	Residential	Consumer	Unallocated	Total
Individually evaluated for impairment	\$ 33	\$ —	\$ —	\$ —	\$ 33
Collectively evaluated for impairment	8,973	1,323	8,112	1,358	19,766
Acquired with deteriorated credit quality	—	—	—	—	—
Ending Balance	<u>\$ 9,006</u>	<u>\$ 1,323</u>	<u>\$ 8,112</u>	<u>\$ 1,358</u>	<u>\$ 19,799</u>

Loans: (Dollar amounts in thousands)	September 30, 2019			
	Commercial	Residential	Consumer	Total
Individually evaluated for impairment	\$ 3,415	\$ 3,664	\$ —	\$ 7,079
Collectively evaluated for impairment	1,577,863	705,586	375,303	2,658,752
Acquired with deteriorated credit quality	10,000	260	—	10,260
Ending Balance	<u>\$ 1,591,278</u>	<u>\$ 709,510</u>	<u>\$ 375,303</u>	<u>\$ 2,676,091</u>

Allowance for Loan Losses: (Dollar amounts in thousands)	December 31, 2018				
	Commercial	Residential	Consumer	Unallocated	Total
Individually evaluated for impairment	737	—	—	—	737
Collectively evaluated for impairment	9,111	1,313	7,481	1,794	19,699
Acquired with deteriorated credit quality	—	—	—	—	—
Ending Balance	<u>\$ 9,848</u>	<u>\$ 1,313</u>	<u>\$ 7,481</u>	<u>\$ 1,794</u>	<u>\$ 20,436</u>

Loans (Dollar amounts in thousands)	December 31, 2018			
	Commercial	Residential	Consumer	Total
Individually evaluated for impairment	6,101	4,415	—	10,516
Collectively evaluated for impairment	1,166,227	440,497	342,473	1,949,197
Acquired with deteriorated credit quality	1,495	—	—	1,495
Ending Balance	<u>\$ 1,173,823</u>	<u>\$ 444,912</u>	<u>\$ 342,473</u>	<u>\$ 1,961,208</u>

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

(Dollar amounts in thousands)	September 30, 2019					
	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	\$ 1,752	\$ 1,222	\$ —	\$ 813	\$ —	\$ —
Farmland	2,011	2,011	—	1,999	—	—
Non Farm, Non Residential	—	—	—	—	—	—
Agriculture	—	—	—	—	—	—
All Other Commercial	29	29	—	570	—	—
Residential						
First Liens	3,664	3,664	—	4,080	—	—
Home Equity	—	—	—	—	—	—
Junior Liens	—	—	—	—	—	—
Multifamily	—	—	—	—	—	—
All Other Residential	—	—	—	—	—	—
Consumer						
Motor Vehicle	—	—	—	—	—	—
All Other Consumer	—	—	—	—	—	—
With an allowance recorded:						
Commercial						
Commercial & Industrial	153	153	33	1,349	—	—
Farmland	—	—	—	105	—	—
Non Farm, Non Residential	—	—	—	—	—	—
Agriculture	—	—	—	173	—	—
All Other Commercial	—	—	—	—	—	—
Residential						
First Liens	—	—	—	—	—	—
Home Equity	—	—	—	—	—	—
Junior Liens	—	—	—	—	—	—
Multifamily	—	—	—	—	—	—
All Other Residential	—	—	—	—	—	—
Consumer						
Motor Vehicle	—	—	—	—	—	—
All Other Consumer	—	—	—	—	—	—
TOTAL	\$ 7,609	\$ 7,079	\$ 33	\$ 9,089	\$ —	\$ —

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	December 31, 2018					
(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	\$ 589	\$ 589	\$ —	\$ 698	\$ —	\$ —
Farmland	2,022	2,022	—	1,579	—	—
Non Farm, Non Residential	—	—	—	1,443	—	—
Agriculture	—	—	—	49	—	—
All Other Commercial	1,114	1,114	—	1,172	—	—
Residential						
First Liens	4,415	4,415	—	3,371	—	—
Home Equity	—	—	—	—	—	—
Junior Liens	—	—	—	23	—	—
Multifamily	—	—	—	—	—	—
All Other Residential	—	—	—	—	—	—
Consumer						
Motor Vehicle	—	—	—	—	—	—
All Other Consumer	—	—	—	—	—	—
With an allowance recorded:						
Commercial						
Commercial & Industrial	1,819	1,819	593	688	—	—
Farmland	211	211	44	1,691	—	—
Non Farm, Non Residential	—	—	—	—	—	—
Agriculture	346	346	100	316	—	—
All Other Commercial	—	—	—	—	—	—
Residential						
First Liens	—	—	—	88	—	—
Home Equity	—	—	—	—	—	—
Junior Liens	—	—	—	—	—	—
Multifamily	—	—	—	—	—	—
All Other Residential	—	—	—	—	—	—
Consumer						
Motor Vehicle	—	—	—	—	—	—
All Other Consumer	—	—	—	—	—	—
TOTAL	\$ 10,516	\$ 10,516	\$ 737	\$ 11,118	\$ —	\$ —

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(Dollar amounts in thousands)	Three Months Ended September 30, 2019			Nine Months Ended September 30, 2019		
	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Income Recognized
With no related allowance recorded:						
Commercial						
Commercial & Industrial	\$ 904	\$ —	\$ —	\$ 813	\$ —	\$ —
Farmland	2,011	—	—	1,999	—	—
Non Farm, Non Residential	—	—	—	—	—	—
Agriculture	—	—	—	—	—	—
All Other Commercial	29	—	—	570	—	—
Residential						
First Liens	3,827	—	—	4,080	—	—
Home Equity	—	—	—	—	—	—
Junior Liens	—	—	—	—	—	—
Multifamily	—	—	—	—	—	—
All Other Residential	—	—	—	—	—	—
Consumer						
Motor Vehicle	—	—	—	—	—	—
All Other Consumer	—	—	—	—	—	—
With an allowance recorded:						
Commercial						
Commercial & Industrial	922	—	—	1,349	—	—
Farmland	—	—	—	105	—	—
Non Farm, Non Residential	—	—	—	—	—	—
Agriculture	—	—	—	173	—	—
All Other Commercial	—	—	—	—	—	—
Residential						
First Liens	—	—	—	—	—	—
Home Equity	—	—	—	—	—	—
Junior Liens	—	—	—	—	—	—
Multifamily	—	—	—	—	—	—
All Other Residential	—	—	—	—	—	—
Consumer						
Motor Vehicle	—	—	—	—	—	—
All Other Consumer	—	—	—	—	—	—
TOTAL	\$ 7,693	\$ —	\$ —	\$ 9,089	\$ —	\$ —

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(Dollar amounts in thousands)	Three Months Ended September 30, 2018			Nine Months Ended September 30, 2018		
	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Income Recognized
With no related allowance recorded:						
Commercial						
Commercial & Industrial	\$ 662	\$ —	\$ —	\$ 725	\$ —	\$ —
Farmland	2,007	—	—	1,468	—	—
Non Farm, Non Residential	1,165	—	—	1,803	—	—
Agriculture	6	—	—	61	—	—
All Other Commercial	1,156	—	—	1,187	—	—
Residential						
First Liens	4,188	—	—	3,110	—	—
Home Equity	—	—	—	—	—	—
Junior Liens	39	—	—	29	—	—
Multifamily	—	—	—	—	—	—
All Other Residential	—	—	—	—	—	—
Consumer						
Motor Vehicle	—	—	—	—	—	—
All Other Consumer	—	—	—	—	—	—
With an allowance recorded:						
Commercial						
Commercial & Industrial	323	—	—	405	—	—
Farmland	1,081	—	—	2,061	—	—
Non Farm, Non Residential	—	—	—	—	—	—
Agriculture	80	—	—	309	—	—
All Other Commercial	—	—	—	—	—	—
Residential						
First Liens	—	—	—	111	—	—
Home Equity	—	—	—	—	—	—
Junior Liens	—	—	—	—	—	—
Multifamily	—	—	—	—	—	—
All Other Residential	—	—	—	—	—	—
Consumer						
Motor Vehicle	—	—	—	—	—	—
All Other Consumer	—	—	—	—	—	—
TOTAL	\$ 10,707	\$ —	\$ —	\$ 11,269	\$ —	\$ —

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

(Dollar amounts in thousands)	September 30, 2019			
	Loans Past Due Over 90 Days Still Accruing	Troubled Debt Restructured		Nonaccrual Excluding TDR
		Accruing	Nonaccrual	
Commercial				
Commercial & Industrial	\$ —	\$ —	\$ 17	\$ 2,401
Farmland	—	—	—	2,439
Non Farm, Non Residential	—	—	—	455
Agriculture	—	—	—	490
All Other Commercial	—	—	—	81
Residential				
First Liens	586	3,016	445	3,101
Home Equity	7	—	—	121
Junior Liens	12	48	9	179
Multifamily	—	—	—	—
All Other Residential	—	—	—	55
Consumer				
Motor Vehicle	180	—	15	183
All Other Consumer	5	271	327	347
TOTAL	\$ 790	\$ 3,335	\$ 813	\$ 9,852

(Dollar amounts in thousands)	December 31, 2018			
	Loans Past Due Over 90 Days Still Accruing	Troubled Debt Restructured		Nonaccrual Excluding TDR
		Accruing	Nonaccrual	
Commercial				
Commercial & Industrial	\$ —	\$ 1	\$ 144	\$ 2,902
Farmland	—	—	—	2,391
Non Farm, Non Residential	—	—	—	81
Agriculture	—	—	—	355
All Other Commercial	—	—	—	1,122
Residential				
First Liens	581	3,327	531	3,393
Home Equity	41	—	—	75
Junior Liens	53	55	—	86
Multifamily	—	—	—	—
All Other Residential	—	—	—	64
Consumer				
Motor Vehicle	177	1	—	125
All Other Consumer	—	268	349	380
TOTAL	\$ 852	\$ 3,652	\$ 1,024	\$ 10,974

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The loss share agreement with the FDIC has ended. There were \$19 thousand included in loans past due over 90 days still on accrual at December 31, 2018. There were \$91 thousand of covered loans included in non-accrual loans at December 31, 2018. There were no covered loans at December 31, 2018 that were deemed impaired.

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

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

(Dollar amounts in thousands)	September 30, 2019					Current	Total
	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 days Past Due	Total Past Due			
Commercial							
Commercial & Industrial	\$ 988	\$ 116	\$ 832	\$ 1,936	\$ 601,368	\$ 603,304	
Farmland	—	5	2,100	2,105	136,959	139,064	
Non Farm, Non Residential	60	—	—	60	409,728	409,788	
Agriculture	493	—	—	493	159,886	160,379	
All Other Commercial	75	47	29	151	278,592	278,743	
Residential							
First Liens	1,386	1,443	1,364	4,193	410,637	414,830	
Home Equity	326	25	11	362	69,537	69,899	
Junior Liens	355	101	126	582	53,078	53,660	
Multifamily	—	—	—	—	163,803	163,803	
All Other Residential	—	—	—	—	7,318	7,318	
Consumer							
Motor Vehicle	4,629	801	251	5,681	337,055	342,736	
All Other Consumer	132	32	10	174	32,393	32,567	
TOTAL	\$ 8,444	\$ 2,570	\$ 4,723	\$ 15,737	\$ 2,660,354	\$ 2,676,091	

(Dollar amounts in thousands)	December 31, 2018					Current	Total
	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 days Past Due	Total Past Due			
Commercial							
Commercial & Industrial	\$ 1,017	\$ 420	\$ 345	\$ 1,782	\$ 518,239	\$ 520,021	
Farmland	515	8	2,136	2,659	104,981	107,640	
Non Farm, Non Residential	—	—	57	57	188,706	188,763	
Agriculture	41	—	347	388	148,345	148,733	
All Other Commercial	30	3	—	33	208,633	208,666	
Residential							
First Liens	3,365	429	1,473	5,267	231,684	236,951	
Home Equity	155	8	110	273	39,378	39,651	
Junior Liens	132	225	63	420	49,111	49,531	
Multifamily	—	—	—	—	109,609	109,609	
All Other Residential	—	9	15	24	9,146	9,170	
Consumer							
Motor Vehicle	4,766	609	177	5,552	309,238	314,790	
All Other Consumer	208	7	12	227	27,456	27,683	
TOTAL	\$ 10,229	\$ 1,718	\$ 4,735	\$ 16,682	\$ 1,944,526	\$ 1,961,208	

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During the three and nine months ended September 30, 2019 and 2018, the terms of certain loans were modified as troubled debt restructurings (TDRs). The following tables present the activity for TDRs.

(Dollar amounts in thousands)	2019			
	Commercial	Residential	Consumer	Total
July 1,	\$ 127	\$ 3,797	\$ 617	\$ 4,541
Added	—	—	73	73
Charged Off	—	—	(35)	(35)
Payments	(110)	(300)	(42)	(452)
September 30,	\$ 17	\$ 3,497	\$ 613	\$ 4,127

(Dollar amounts in thousands)	2019			
	Commercial	Residential	Consumer	Total
January 1,	\$ 145	\$ 4,043	\$ 618	\$ 4,806
Added	—	122	236	358
Charged Off	—	(16)	(81)	(97)
Payments	(128)	(652)	(160)	(940)
September 30,	\$ 17	\$ 3,497	\$ 613	\$ 4,127

(Dollar amounts in thousands)	2018			
	Commercial	Residential	Consumer	Total
July 1,	2,577	3,607	635	6,819
Added	—	538	94	632
Charged Off	—	—	(7)	(7)
Payments	(2,374)	(165)	(58)	(2,597)
September 30,	203	3,980	664	4,847

(Dollar amounts in thousands)	2018			
	Commercial	Residential	Consumer	Total
January 1,	2,709	3,611	714	7,034
Added	—	751	237	988
Charged Off	—	(16)	(83)	(99)
Payments	(2,506)	(366)	(204)	(3,076)
September 30,	203	3,980	664	4,847

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 2019 or 2018 resulted in the permanent reduction of the recorded investment in the loan. Modifications involving a reduction of the stated interest rate of the loan were for periods ranging from twelve months to five years. Modifications involving an extension of the maturity date were for periods ranging from twelve months to ten years. Troubled debt restructurings during the three months ended September 30, 2019 and 2018 did not result in any material charge-offs or additional provision expense.

The Corporation has no allocations of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of September 30, 2019 and 2018. The Corporation has not committed to lend additional amounts as of September 30, 2019 and 2018 to customers with outstanding loans that are classified as troubled debt restructurings. None of the charge-offs during the three and nine months ended September 30, 2019 and 2018 were of restructurings that had occurred in the previous 12 months.

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Credit Quality Indicators:

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

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

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

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

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

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans. Loans listed as not rated are either those with an outstanding balance less than \$100 thousand or are included in groups of homogeneous loans. As of September 30, 2019 and December 31, 2018, and based on the most recent analysis performed, the risk category of loans by class of loans are as follows:

	September 30, 2019					
(Dollar amounts in thousands)	Pass	Special Mention	Substandard	Doubtful	Not Rated	Total
Commercial						
Commercial & Industrial	\$ 550,274	\$ 18,205	\$ 26,901	\$ 4	\$ 6,228	\$ 601,612
Farmland	121,097	7,472	8,354	—	10	136,933
Non Farm, Non Residential	390,707	5,469	12,577	—	622	409,375
Agriculture	125,250	4,239	27,654	—	568	157,711
All Other Commercial	269,763	4,123	155	—	3,330	277,371
Residential						
First Liens	193,626	1,142	4,540	—	214,651	413,959
Home Equity	18,375	—	452	—	51,008	69,835
Junior Liens	2,895	67	185	76	50,318	53,541
Multifamily	161,976	1,440	—	—	21	163,437
All Other Residential	—	—	13	—	7,271	7,284
Consumer						
Motor Vehicle	3,224	—	470	—	337,630	341,324
All Other Consumer	3,691	—	33	—	28,699	32,423
TOTAL	\$ 1,840,878	\$ 42,157	\$ 81,334	\$ 80	\$ 700,356	\$ 2,664,805

December 31, 2018

(Dollar amounts in thousands)	Pass	Special Mention	Substandard	Doubtful	Not Rated	Total
Commercial						
Commercial & Industrial	\$ 472,008	\$ 20,600	\$ 18,374	\$ —	\$ 7,428	\$ 518,410
Farmland	90,367	7,587	7,783	—	19	105,756
Non Farm, Non Residential	170,757	5,442	10,439	—	1,695	188,333
Agriculture	118,952	10,010	16,637	—	457	146,056
All Other Commercial	198,302	43	6,777	—	2,675	207,797
Residential						
First Liens	43,915	1,043	3,504	—	187,685	236,147
Home Equity	963	—	148	—	38,471	39,582
Junior Liens	1,983	74	224	76	47,060	49,417
Multifamily	109,361	—	—	—	17	109,378
All Other Residential	—	—	15	—	9,131	9,146
Consumer						
Motor Vehicle	—	—	627	—	312,863	313,490
All Other Consumer	—	—	34	—	27,517	27,551
TOTAL	\$ 1,206,608	\$ 44,799	\$ 64,562	\$ 76	\$ 635,018	\$ 1,951,063

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)	September 30, 2019			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Government agencies	\$ 105,115	\$ 2,205	\$ (44)	\$ 107,276
Mortgage Backed Securities - residential	214,486	2,558	(308)	216,736
Mortgage Backed Securities - commercial	24,193	231	—	24,424
Collateralized mortgage obligations	306,699	2,243	(904)	308,038
State and municipal obligations	257,889	11,842	(75)	269,656
Municipal taxable	731	1	—	732
U.S. Treasury	9,471	7	—	9,478
Collateralized debt obligations	7	3,597	—	3,604
TOTAL	\$ 918,591	\$ 22,684	\$ (1,331)	\$ 939,944

(Dollar amounts in thousands)	December 31, 2018			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Government agencies	\$ 25,617	\$ 218	\$ (471)	\$ 25,364
Mortgage Backed Securities-residential	182,050	723	(4,030)	178,743
Collateralized mortgage obligations	352,823	217	(9,424)	343,616
State and municipal obligations	232,457	2,767	(1,289)	233,935
Collateralized debt obligations	137	3,121	—	3,258
TOTAL	\$ 793,084	\$ 7,046	\$ (15,214)	\$ 784,916

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Contractual maturities of debt securities at September 30, 2019 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	\$ 17,600	\$ 17,633
Due after one but within five years	64,741	65,565
Due after five but within ten years	73,343	75,416
Due after ten years	217,529	232,132
	<u>373,213</u>	<u>390,746</u>
Mortgage-backed securities and collateralized mortgage obligations	545,378	549,198
TOTAL	<u>\$ 918,591</u>	<u>\$ 939,944</u>

There were \$6 thousand and \$24 thousand in gross gains and zero and \$6 thousand in losses from investment sales/calls realized by the Corporation for the three and nine months ended September 30, 2019. For the three and nine months ended September 30, 2018 there were \$3 thousand and \$5 thousand in gross gains and no losses on sales of investment securities.

The following tables show the securities' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in continuous unrealized loss position, at September 30, 2019 and December 31, 2018.

(Dollar amounts in thousands)	September 30, 2019					
	Less Than 12 Months		More Than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government agencies	\$ 9,362	\$ (44)	\$ —	\$ —	\$ 9,362	\$ (44)
Mortgage Backed Securities - Residential	\$ 34,500	\$ (129)	\$ 22,585	\$ (179)	\$ 57,085	\$ (308)
Collateralized mortgage obligations	60,615	(186)	65,977	(718)	126,592	(904)
State and municipal obligations	11,015	(37)	459	(38)	11,474	(75)
U.S. Treasury	1,993	—	—	—	1,993	—
Total temporarily impaired securities	<u>\$ 117,485</u>	<u>\$ (396)</u>	<u>\$ 89,021</u>	<u>\$ (935)</u>	<u>\$ 206,506</u>	<u>\$ (1,331)</u>

(Dollar amounts in thousands)	December 31, 2018					
	Less Than 12 Months		More Than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
US Government Agencies	\$ 3,052	\$ (4)	\$ 11,356	\$ (467)	\$ 14,408	\$ (471)
Mortgage Backed Securities - Residential	\$ 39,997	\$ (553)	\$ 111,423	\$ (3,477)	\$ 151,420	\$ (4,030)
Collateralized mortgage obligations	52,838	(455)	241,373	(8,969)	294,211	(9,424)
State and municipal obligations	34,229	(276)	41,742	(1,013)	75,971	(1,289)
Total temporarily impaired securities	<u>\$ 130,116</u>	<u>\$ (1,288)</u>	<u>\$ 405,894</u>	<u>\$ (13,926)</u>	<u>\$ 536,010</u>	<u>\$ (15,214)</u>

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

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

Gross unrealized losses on investment securities were \$1.3 million as of September 30, 2019 and \$15.2 million as of December 31, 2018. 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 is one remaining collateralized debt obligations security with previously recorded OTTI but there was no additional OTTI recorded in 2019 or 2018. During the quarter ended June 30, 2018, an obligation was called, resulting in the elimination of the OTTI associated with that obligation. A recovery of previously recorded OTTI of \$4.2 million was received and recognized in non-interest income for the period. In addition the Corporation received \$2.4 million of interest income associated with the call.

The table below presents a rollforward of the credit losses recognized in earnings for the three and nine month periods ended September 30, 2019 and 2018:

(Dollar amounts in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Beginning balance	\$ 2,974	\$ 2,974	\$ 2,974	\$ 7,132
Increases to the amount related to the credit				
Loss for which other-than-temporary was previously recognized	—	—	—	—
Reductions for increases in cash flows collected	—	—	—	—
Reductions for securities called during the period	—	—	—	(4,158)
Ending balance	<u>\$ 2,974</u>	<u>\$ 2,974</u>	<u>\$ 2,974</u>	<u>\$ 2,974</u>

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).

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

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

(Dollar amounts in thousands)	September 30, 2019			
	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)			
	Level 1	Level 2	Level 3	Total
U.S. Government agencies	\$ —	\$ 107,276	\$ —	\$ 107,276
Mortgage Backed Securities-residential	—	216,736	—	216,736
Mortgage Backed Securities-commercial	—	24,424	—	24,424
Collateralized mortgage obligations	—	308,038	—	308,038
State and municipal	—	267,091	2,565	269,656
Municipal taxable	—	732	—	732
U.S. Treasury	—	9,478	—	9,478
Collateralized debt obligations	—	—	3,604	3,604
TOTAL	\$ —	\$ 933,775	\$ 6,169	\$ 939,944
Derivative Assets		1,099		
Derivative Liabilities		(1,099)		

(Dollar amounts in thousands)	December 31, 2018			
	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)			
	Level 1	Level 2	Level 3	Total
U.S. Government agencies	\$ —	\$ 25,364	\$ —	\$ 25,364
Mortgage Backed Securities-residential	—	178,743	—	178,743
Mortgage Backed Securities-commercial	—	—	—	—
Collateralized mortgage obligations	—	343,616	—	343,616
State and municipal	—	230,800	3,135	233,935
Collateralized debt obligations	—	—	3,258	3,258
TOTAL	\$ —	\$ 778,523	\$ 6,393	\$ 784,916
Derivative Assets		218		
Derivative Liabilities		(218)		

There were no transfers between Level 1 and Level 2 during 2019 and 2018.

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The tables below presents a reconciliation and income statement classification of gains and losses for all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three and nine months ended September 30, 2019 and the year ended December 31, 2018.

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)			
Three Months Ended September 30, 2019			
(Dollar amounts in thousands)	State and municipal obligations	Collateralized debt obligations	Total
Beginning balance, July 1	\$ 2,890	\$ 3,333	\$ 6,223
Total realized/unrealized gains or losses			
Included in earnings	—	—	—
Included in other comprehensive income	—	315	315
Transfers	—	—	—
Settlements	(325)	(44)	(369)
Ending balance, September 30	<u>\$ 2,565</u>	<u>\$ 3,604</u>	<u>\$ 6,169</u>

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)			
Nine Months Ended September 30, 2019			
(Dollar amounts in thousands)	State and municipal obligations	Collateralized debt obligations	Total
Beginning balance, January 1	\$ 3,135	\$ 3,258	\$ 6,393
Total realized/unrealized gains or losses			
Included in earnings	—	—	—
Included in other comprehensive income	—	476	476
Transfers	—	—	—
Settlements	(570)	(130)	(700)
Ending balance, September 30	<u>\$ 2,565</u>	<u>\$ 3,604</u>	<u>\$ 6,169</u>

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)			
Year Ended December 31, 2018			
(Dollar amounts in thousands)	State and municipal obligations	Collateralized debt obligations	Total
Beginning balance, January 1	\$ 3,680	\$ 14,605	\$ 18,285
Total realized/unrealized gains or losses			
Included in earnings	—	—	—
Included in other comprehensive income	—	(2,840)	(2,840)
Purchases	—	—	—
Settlements	(545)	(8,507)	(9,052)
Ending balance, December 31	<u>\$ 3,135</u>	<u>\$ 3,258</u>	<u>\$ 6,393</u>

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The following table presents quantitative information about recurring and non-recurring Level 3 fair value measurements at September 30, 2019.

(Dollar amounts in thousands)	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range
State and municipal obligations	\$ 2,565	Discounted cash flow	Discount rate Probability of default	2.87%-4.44% 0%
Other real estate	\$ 3,717	Sales comparison/income approach	Discount rate for age of appraisal and market conditions	5.00%-20.00%
Impaired Loans	\$ 120	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, 2018.

(Dollar amounts in thousands)	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range
State and municipal obligations	\$ 3,135	Discounted cash flow	Discount rate Probability of default	2.64%-4.80% 0%
Other real estate	\$ 603	Sales comparison/income approach	Discount rate for age of appraisal and market conditions	5.00%-20.00%
Impaired Loans	1,639	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 \$120 thousand, after a valuation allowance of \$33 thousand at September 30, 2019 and at a fair value of \$1.6 million, net of a valuation allowance of \$737 thousand at December 31, 2018. The impact to the provision for loan losses for the three and nine months ended September 30, 2019 and for the twelve months ended December 31, 2018 was a \$625 thousand decrease, a \$704 thousand decrease and a \$112 thousand increase, respectively. Other real estate owned is valued at Level 3. Other real estate owned at September 30, 2019 with a value of \$3.7 million was reduced \$97 thousand for fair value adjustment. At September 30, 2019 other real estate owned was comprised of \$3.5 million from commercial loans and \$207 thousand from residential loans. Other real estate owned at December 31, 2018 with a value of \$603 thousand was reduced \$598 thousand for fair value adjustment. At December 31, 2018 other real estate owned was comprised of \$171 thousand from commercial loans and \$432 thousand from residential loans.

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

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The following tables presents loans identified as impaired by class of loans, and carried at fair value on a non-recurring basis, as of September 30, 2019 and December 31, 2018, which are all considered Level 3.

(Dollar amounts in thousands)	September 30, 2019		
	Carrying Value	Allowance for Loan Losses Allocated	Fair Value
Commercial			
Commercial & Industrial	\$ 153	\$ 33	\$ 120
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	—	—	—
TOTAL	\$ 153	\$ 33	\$ 120

(Dollar amounts in thousands)	December 31, 2018		
	Carrying Value	Allowance for Loan Losses Allocated	Fair Value
Commercial			
Commercial & Industrial	\$ 1,819	\$ 593	\$ 1,226
Farmland	211	44	167
Non Farm, Non Residential	—	—	—
Agriculture	346	100	246
All Other Commercial	—	—	—
Residential			
First Liens	—	—	—
Home Equity	—	—	—
Junior Liens	—	—	—
Multifamily	—	—	—
All Other Residential	—	—	—
Consumer			
Motor Vehicle	—	—	—
All Other Consumer	—	—	—
TOTAL	\$ 2,376	\$ 737	\$ 1,639

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The carrying amounts and estimated fair value of financial instruments at September 30, 2019 and December 31, 2018, are shown below. Carrying amount is the estimated fair value for cash and due from banks, federal funds sold, short-term borrowings, accrued interest receivable and payable, demand deposits, short-term debt and variable-rate loans or deposits that reprice frequently and fully. Security fair values were described previously. For fixed-rate, non-impaired loans or deposits, variable rate loans or deposits with infrequent repricing or repricing limits, and for longer-term borrowings, fair value is based on discounted cash flows using current market rates applied to the estimated life and considering credit risk. The valuation of impaired loans was described previously. Loan fair value estimates represent an exit price. Fair values of loans held for sale are based on market bids on the loans or similar loans. It was not practicable to determine the fair value of Federal Home Loan Bank stock due to restrictions placed on its transferability. Fair value of debt is based on current rates for similar financing. The fair value of off-balance sheet items is not considered material.

(Dollar amounts in thousands)	September 30, 2019				
	Carrying Value	Fair Value			Total
		Level 1	Level 2	Level 3	
Cash and due from banks	\$ 80,193	\$ 22,625	\$ 57,568	\$ —	\$ 80,193
Federal funds sold	—	—	—	—	—
Securities available-for-sale	939,944	—	933,775	6,169	939,944
Restricted stock	13,624	n/a	n/a	n/a	n/a
Loans, net	2,648,677	—	—	2,674,336	2,674,336
Accrued interest receivable	18,735	—	5,180	13,555	18,735
Deposits	(3,220,122)	—	(3,210,216)	—	(3,210,216)
Short-term borrowings	(90,852)	—	(90,852)	—	(90,852)
Accrued interest payable	(1,790)	—	(1,790)	—	(1,790)

(Dollar amounts in thousands)	December 31, 2018				
	Carrying Value	Fair Value			Total
		Level 1	Level 2	Level 3	
Cash and due from banks	\$ 74,388	\$ 23,418	\$ 50,970	\$ —	\$ 74,388
Securities available-for-sale	784,916	—	778,523	6,393	784,916
Restricted stock	10,390	n/a	n/a	n/a	n/a
Loans, net	1,933,552	—	—	1,889,795	1,889,795
Accrued interest receivable	13,970	—	3,005	10,965	13,970
Deposits	(2,436,727)	—	(2,426,128)	—	(2,426,128)
Short-term borrowings	(69,656)	—	(69,656)	—	(69,656)
Accrued interest payable	(609)	—	(609)	—	(609)

5. Short-Term Borrowings

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

	(000 's)	
	September 30, 2019	December 31, 2018
Federal Funds Purchased	\$ 11,126	\$ 43,250
Repurchase Agreements	79,726	26,406
	<u>\$ 90,852</u>	<u>\$ 69,656</u>

The Corporation enters into sales of securities under agreements to repurchase. The amounts received under these agreements represent short-term borrowings and are reflected as a liability in the consolidated balance sheets. The securities underlying these agreements are included in investment securities in the consolidated balance sheets. The Corporation has no control over the market value of the securities, which fluctuates due to market conditions. However, the Corporation is obligated to promptly transfer additional securities if the market value of the securities falls below the repurchase agreement price. The Corporation manages this risk by maintaining an unpledged securities portfolio that it believes is sufficient to cover a decline in the market value of the securities sold under agreements to repurchase.

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

Repurchase Agreements	September 30, 2019				
	Remaining Contractual Maturity of the Agreements				
	Overnight and continuous	Up to 30 days	30 - 90 days	Greater than 90 days	Total
(Dollar amounts in thousands)					
Mortgage Backed Securities - Residential and Collateralized Mortgage Obligations	\$ 70,382	\$ —	\$ —	\$ 9,344	\$ 79,726

Repurchase Agreements	December 31, 2018				
	Remaining Contractual Maturity of the Agreements				
	Overnight and continuous	Up to 30 days	30 - 90 days	Greater than 90 days	Total
(Dollar amounts in thousands)					
Mortgage Backed Securities - Residential and Collateralized Mortgage Obligations	\$ 10,870	\$ 6,307	\$ 8,683	\$ 546	\$ 26,406

6. Components of Net Periodic Benefit Cost

	Three Months Ended September 30, (000's)				Nine Months Ended September 30, (000's)			
	Pension Benefits		Post-Retirement Health Benefits		Pension Benefits		Post-Retirement Health Benefits	
	2019	2018	2019	2018	2019	2018	2019	2018
Service cost	\$ 304	\$ 347	\$ 9	\$ 10	\$ 913	\$ 1,041	\$ 26	\$ 31
Interest cost	866	798	36	33	2,599	2,395	109	98
Expected return on plan assets	(896)	(991)	—	—	(2,689)	(2,972)	—	—
Net amortization of prior service cost	—	—	—	—	1	1	—	—
Net amortization of net (gain) loss	389	362	(4)	—	1,168	1,085	(12)	—
Net Periodic Benefit Cost	\$ 663	\$ 516	\$ 41	\$ 43	\$ 1,992	\$ 1,550	\$ 123	\$ 129

Employer Contributions

First Financial Corporation previously disclosed in its financial statements for the year ended December 31, 2018 that it expected to contribute \$1.8 million and \$814 thousand respectively to its Pension Plan and ESOP and \$233 thousand to the Post Retirement Health Benefits Plan in 2019. Contributions of \$1,767 thousand have been made to the Pension Plan thus far in 2019. Contributions of \$188 thousand have been made through the first nine months of 2019 for the Post Retirement Health Benefits plan. No contributions have been made in 2019 for the ESOP. The Pension plan was frozen for most employees at the end of 2012 and for those employees there will be discretionary contributions to the ESOP plan and a 401K plan in place of the former Pension benefit. In the first nine months of 2019 and 2018 there has been \$1.1 million and \$1.3 million of expense accrued for potential contributions to these alternative retirement benefit options.

7. New accounting standards

Accounting Pronouncements Adopted:

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02, Leases. The FASB issued this ASU to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet by lessees for those leases classified as operating leases under current U.S. GAAP and

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disclosing key information about leasing arrangements. The new standard was adopted by the Corporation on January 1, 2019. ASU 2016-02 provides for a modified retrospective transition approach requiring lessees to recognize and measure leases on the balance sheet at the beginning of either the earliest period presented or as of the beginning of the period of adoption. The Corporation elected to apply ASU 2016-02 as of the beginning of the period of adoption (January 1, 2019) and did not restate comparative periods. Adoption of ASU 2016-02 resulted in the recognition of lease liabilities totaling \$7 million and the recognition of right-of-use assets totaling \$7 million as of the date of adoption. Lease liabilities and right-of-use assets are reflected in other liabilities and other assets, respectively. The initial balance sheet gross up upon adoption was primarily related to operating leases of certain real estate properties. The Corporation has no finance leases or material subleases or leasing arrangements for which it is the lessor of property or equipment. The Corporation has elected to apply the package of practical expedients allowed by the new standard under which the Corporation need not reassess whether any expired or existing contracts are leases or contain leases, the Corporation need not reassess the lease classification for any expired or existing lease, and the Corporation need not reassess initial direct costs for any existing leases. Adoption of ASU 2016-02 did not materially change the Corporation's recognition of lease expense. See Note 11 - Leases for additional disclosures related to leases.

In July 2018, the FASB issued ASU No. 2018-11, Leases - Targeted Improvements, to provide entities with relief from the costs of implementing certain aspects of the new leasing standard, ASU No. 2016-02. Specifically, under the amendments in ASU 2018-11: (1) entities may elect not to recast the comparative periods presented when transitioning to the new leasing standard, and (2) lessors may elect not to separate lease and non-lease components when certain conditions are met. The amendments have the same effective date as ASU 2016-02 (January 1, 2019 for the Corporation). The Corporation elected both transition options on January 1, 2019. ASU 2018-11 did not have a material impact on the Corporation's financial statements.

Recent Accounting Pronouncements:

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

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

In August 2018, the FASB issued ASU No. 2018-13, Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement. This ASU eliminates, adds and modifies certain disclosure requirements for fair value measurements. Among the changes, entities will no longer be required to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, but will be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. ASU No. 2018-13 is effective for interim and annual reporting periods beginning after December 15, 2019; early adoption is permitted. Entities are also allowed to elect early adoption the eliminated or modified disclosure requirements and delay adoption of the new disclosure requirements until their effective date. As ASU No. 2018-13 only revises disclosure requirements, it will not have a material impact on the Corporation's financial statements.

In August 2018, the FASB issued ASU No. 2018-14, Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans. This ASU makes minor changes to the disclosure requirements for employers that sponsor defined benefit pension and/or other postretirement benefit plans. ASU 2018-14 is effective for fiscal years ending after December 15, 2020; early adoption is permitted. As ASU 2018-14 only revises disclosure requirements, it will not have a material impact on the Corporation's financial statements.

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In September 2018, the FASB issued ASU No. 2018-15, Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. This ASU requires an entity in a cloud computing arrangement (i.e., hosting arrangement) that is a service contract to follow the internal-use software guidance in ASC 350-40 to determine which implementation costs to capitalize as assets or expense as incurred. Capitalized implementation costs should be presented in the same line item on the balance sheet as amounts prepaid for the hosted service, if any (generally as an "other asset"). The capitalized costs will be amortized over the term of the hosting arrangement, with the amortization expense being presented in the same income statement line item as the fees paid for the hosted service. ASU 2018-15 is effective for interim and annual reporting periods beginning after December 15, 2019; early adoption is permitted. ASU 2018-15 will not have a material impact on the Corporation's financial statements.

8. Revenue from Contracts with Customers

All of the Corporation's revenue from contracts with customers in the scope of ASC 606 is recognized within Non-Interest Income. The following table presents the Corporation's sources of Non-Interest Income for the three and nine months ended September 30, 2019 and 2018. Items outside the scope of ASC 606 are noted as such.

(Dollar amounts in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Non-interest income				
Service charges on deposits	\$ 3,673	\$ 3,386	\$ 9,787	\$ 9,874
Asset management fees	1,353	1,009	3,559	3,411
Interchange income	105	79	264	218
Net gains on sales of loans ^(a)	865	617	1,781	1,458
Loan servicing fees ^(a)	541	418	1,238	1,209
Net gains/(losses) on sales of securities ^(a)	6	3	18	5
Other service charges and fees ^(a)	2,491	2,331	7,322	7,058
Other ^(b)	712	1,066	3,156	6,740
Total non-interest income	\$ 9,746	\$ 8,909	\$ 27,125	\$ 29,973

^(a) Not within the scope of ASC 606.

^(b) The Other category includes gains/(losses) on the sale of OREO for the three months ended September 30, 2019 and September 30, 2018, totaling \$2 thousand and \$(1) thousand, respectively, and for the nine months ended for the same periods, totaling \$(40) thousand and \$19 thousand, respectively, which is within the scope of ASC 606; the remaining balance is outside the scope of ASC 606.

Service charges on deposits: The Corporation earns fees from its deposit customers for transaction-based, account maintenance, and overdraft services. Transaction-based fees, which include services such as ATM use fees, stop payment charges, statement rendering, and ACH fees, are recognized at the time the transaction is executed as that is the point in time the Corporation fulfills the customer's request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Corporation satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the customer's account balance.

Asset management fees: The Corporation earns asset management fees from its contracts with trust customers to manage assets for investment, and/or to transact on their accounts. These fees are primarily earned over time as the Corporation provides the contracted monthly or quarterly services and are generally assessed based on a tiered scale of the market value of assets under management at month-end. Fees that are transaction based, including trade execution services, are recognized at the point in time that the transaction is executed, i.e. the trade date. Other related services provided and the fees the Corporation earns, which are based on a fixed fee schedule, are recognized when the services are rendered.

Interchange income: The Corporation earns interchange fees from debit and credit cardholder transactions conducted through the payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder.

Gains/Losses on sales of OREO: The Corporation records a gain or loss from the sale of OREO when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Corporation finances the sale

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of OREO to the buyer, the Corporation assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the OREO asset is derecognized and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer. In determining the gain or loss on the sale, the Corporation adjusts the transaction price and related gain (loss) on sale if a significant financing component is present.

9. Acquisitions, Divestitures and FDIC Indemnification Asset

On July 27, 2019, the Corporation completed its acquisition of HopFed Bancorp, Inc. and its banking subsidiary, Heritage Bank. Therefore, the results of HopFed have been included in the results of operations beginning on July 27, 2019. Pursuant to the terms of the merger agreement, each issued and outstanding share of HopFed common stock, \$0.01 par value per share, was converted into the right to receive, at the stockholder's election, either (or a combination of) 0.444 shares of Corporation common stock, without par value, or \$21.00 in cash, subject to proration provisions specified in the merger agreement that provide for an aggregate split of 50% of shares of HopFed Common Stock being exchanged for Corporation Common Stock and 50% for cash, with cash to be paid in lieu of fractional shares. Each outstanding share of Corporation common stock remained outstanding and was unaffected by the merger. Acquisition-related costs of \$2.9 million are included in the Corporation's income statement for the nine months ended September 30, 2019.

Goodwill of \$41.1 million arising from the acquisition consisted largely of synergies and the cost savings resulting from the combining of the operations of the companies. The goodwill is not deductible for income tax purposes as the transaction was accounted for as a tax-free exchange. The following table summarizes the consideration paid and the amounts of the assets acquired and liabilities assumed recognized at the acquisition date.

(Dollar amounts in thousands)	HopFed
Consideration	
Cash consideration	\$ 67,348
Stock consideration	61,878
Fair value of total consideration transferred	\$ 129,226
Assets acquired	
Cash	\$ 34,518
Investment securities available-for-sale	185,544
Federal Home Loan Bank stock	4,428
Loans	657,179
Premises and equipment	25,316
Core deposit intangibles	10,369
Other real estate owned	3,364
Other assets	6,596
Total assets acquired	927,314
Liabilities assumed	
Deposits	735,526
FHLB advances	20,775
Other borrowings	75,783
Other liabilities	7,066
Total liabilities assumed	839,150
Net identifiable assets	88,164
Goodwill	\$ 41,062

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The fair value of net assets acquired includes fair value adjustments to certain receivables that were not considered impaired as of the acquisition date. The fair value adjustments were determined using discounted contractual cash flows. However, the Corporation believes that all contractual cash flows related to these financial instruments will be collected. As such, these receivables were not considered impaired at the acquisition date and were not subject to guidance relating to purchase credit impaired loans, which have shown evidence of credit deterioration since origination.

The following table presents supplemental pro forma information as if the acquisition had occurred at the beginning of 2019. The unaudited pro forma information includes adjustments for interest income on loans and securities acquired, interest expense on deposits acquired, and the related income tax effects. The pro forma financial information is not necessarily indicative of the results of operations that would have occurred had the transactions been effected on the assumed dates.

(Dollar amounts in thousands, except per share data)	Nine months ended September 30, 2019	
	2019	2018
Net interest income	\$ 95,237	\$ 86,984
Net income	\$ 28,226	\$ 35,527
Basic and diluted earnings per share	\$ 2.24	\$ 2.90

The Bank was party to a loss sharing agreement with the FDIC as a result of a 2009 acquisition. Under the loss-sharing agreement (“LSA”), the Bank shared in the losses on assets covered under the agreement (referred to as covered assets). On losses up to \$29 million, the FDIC agreed to reimburse the Bank for 80 percent of the losses. On losses exceeding \$29 million, the FDIC agreed to reimburse the Bank for 95 percent of the losses. The loss-sharing agreement was subject to following servicing procedures as specified in the agreement with the FDIC. Loans acquired that were subject to the loss-sharing agreement with the FDIC were referred to as covered loans for disclosure purposes. Since the acquisition date the Bank has been reimbursed \$19.4 million for losses and carrying expenses and carried an immaterial balance in the indemnification asset. The balance of loans that were covered by the loss share agreement at September 30, 2019 and December 31, 2018 totaled \$2.8 million and \$3.2 million, respectively. The agreement expired on July 2, 2019.

FASB ASC 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*, applies to a loan with evidence of deterioration of credit quality since origination, acquired by completion of a transfer for which it is probable, at acquisition, that the investor will be unable to collect all contractually required payments receivable. FASB ASC 310-30 prohibits carrying over or creating an allowance for loan losses upon initial recognition.

Purchase credit impaired loans purchased during the nine months ending September 30, 2019, for which it was probable at acquisition that all contractually required payments would not be collected are as follows:

(Dollar amount in thousands)	2019
Contractually required payments receivable of loans purchased during the year:	
Commercial	\$ 16,530
Consumer	391
	\$ 16,921
Fair value of acquired loans at acquisition	\$ 8,870

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The carrying amount of loans accounted for in accordance with FASB ASC 310-30 at September 30, 2019 and 2018 are shown in the following tables:

(Dollar amounts in thousands)	Commercial	Consumer	2019 Total
Beginning balance, July 1,	\$ 1,458	\$ —	\$ 1,458
Loans added	8,610	260	8,870
Discount accretion	—	—	—
Disposals	(35)	—	(35)
ASC 310-30 Loans, September 30,	\$ 10,033	\$ 260	\$ 10,293

(Dollar amounts in thousands)	Commercial	Consumer	2019 Total
Beginning balance, January 1,	\$ 1,530	\$ —	\$ 1,530
Loans added	8,610	260	8,870
Discount accretion	—	—	—
Disposals	(107)	—	(107)
ASC 310-30 Loans, September 30,	\$ 10,033	\$ 260	\$ 10,293

(Dollar amounts in thousands)	Commercial	Consumer	2018 Total
Beginning balance, July 1,	\$ 1,598	\$ —	\$ 1,598
Discount accretion	—	—	—
Disposals	(16)	—	(16)
ASC 310-30 Loans, September 30,	\$ 1,582	\$ —	\$ 1,582

(Dollar amounts in thousands)	Commercial	Consumer	2018 Total
Beginning balance, January 1,	\$ 1,896	\$ —	\$ 1,896
Discount accretion	—	—	—
Disposals	(314)	—	(314)
ASC 310-30 Loans, September 30,	\$ 1,582	\$ —	\$ 1,582

10. Accumulated Other Comprehensive Income

The following tables summarize the changes, net of tax, within each classification of accumulated other comprehensive income/(loss) for the three and nine months ended September 30, 2019 and 2018.

(Dollar amounts in thousands)	Unrealized gains and (Losses) on available-for-sale Securities	Retirement plans	2019 Total
Beginning balance, July 1,	\$ 12,460	\$ (16,742)	\$ (4,282)
Change in other comprehensive income (loss) before reclassification	4,128	—	4,128
Amounts reclassified from accumulated other comprehensive income	(4)	303	299
Net current period other comprehensive income (loss)	4,124	303	4,427
Ending balance, September 30,	\$ 16,584	\$ (16,439)	\$ 145

(Dollar amounts in thousands)	2019		
	Unrealized gains and (Losses) on available-for-sale Securities	Retirement plans	Total
Beginning balance, January 1,	\$ (6,105)	\$ (17,349)	\$ (23,454)
Change in other comprehensive income (loss) before reclassification	22,702	—	22,702
Amounts reclassified from accumulated other comprehensive income	(13)	910	897
Net current period other comprehensive income (loss)	22,689	910	23,599
Ending balance, September 30,	\$ 16,584	\$ (16,439)	\$ 145

(Dollar amounts in thousands)	2018		
	Unrealized gains and (Losses) on available-for-sale Securities	Retirement plans	Total
Beginning balance, July 1,	\$ (9,625)	\$ (19,264)	\$ (28,889)
Change in other comprehensive income (loss) before reclassification	(3,700)	—	(3,700)
Amounts reclassified from accumulated other comprehensive income	(2)	281	279
Net current period other comprehensive income (loss)	(3,702)	281	(3,421)
Ending balance, September 30,	\$ (13,327)	\$ (18,983)	\$ (32,310)

(Dollar amounts in thousands)	2018		
	Unrealized gains and (Losses) on available-for-sale Securities	Retirement plans	Total
Beginning balance, January 1,	\$ 2,258	\$ (16,962)	\$ (14,704)
Change in other comprehensive income (loss) before reclassification	(16,079)	—	(16,079)
Amounts reclassified from accumulated other comprehensive income	(4)	843	839
Net current period other comprehensive income (loss)	(16,083)	843	(15,240)
ASU 2018-02 adjustment	498	(2,864)	(2,366)
Ending balance, September 30,	\$ (13,327)	\$ (18,983)	\$ (32,310)

(Dollar amounts in thousands)	Balance at	Current Period	Balance at
	7/1/2019	Change	9/30/2019
Unrealized gains (losses) on securities available-for-sale without other than temporary impairment	\$ 9,998	\$ 3,888	\$ 13,886
Unrealized gains (losses) on securities available-for-sale with other than temporary impairment	2,462	236	2,698
Total unrealized loss on securities available-for-sale	\$ 12,460	\$ 4,124	\$ 16,584
Unrealized gain (loss) on retirement plans	(16,742)	303	(16,439)
TOTAL	\$ (4,282)	\$ 4,427	\$ 145

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(Dollar amounts in thousands)	Balance at 1/1/2019	Current Period Change	Balance at 9/30/2019
Unrealized gains (losses) on securities available-for-sale			
without other than temporary impairment	\$ (8,446)	\$ 22,332	\$ 13,886
Unrealized gains (losses) on securities available-for-sale			
with other than temporary impairment	2,341	357	2,698
Total unrealized gain (loss) on securities available-for-sale	\$ (6,105)	\$ 22,689	\$ 16,584
Unrealized loss on retirement plans	(17,349)	910	(16,439)
TOTAL	\$ (23,454)	\$ 23,599	\$ 145

(Dollar amounts in thousands)	Balance at 7/1/2018	Current Period Change	Balance at 9/30/2018
Unrealized gains (losses) on securities available-for-sale			
without other than temporary impairment	\$ (11,592)	\$ (3,710)	\$ (15,302)
Unrealized gains (losses) on securities available-for-sale			
with other than temporary impairment	1,967	8	1,975
Total unrealized gain (loss) on securities available-for-sale	\$ (9,625)	\$ (3,702)	\$ (13,327)
Unrealized loss on retirement plans	(19,264)	281	(18,983)
TOTAL	\$ (28,889)	\$ (3,421)	\$ (32,310)

(Dollar amounts in thousands)	Balance at 1/1/2018	Current Period Change	ASU 2018-02 Adjustment	Balance at 9/30/2018
Unrealized gains (losses) on securities available-for-sale				
without other than temporary impairment	\$ (1,371)	\$ (11,067)	\$ (2,864)	\$ (15,302)
Unrealized gains (losses) on securities available-for-sale				
with other than temporary impairment	3,629	(1,654)		1,975
Total unrealized income (loss) on securities available-for-sale	\$ 2,258	\$ (12,721)	\$ (2,864)	\$ (13,327)
Unrealized gain (loss) on retirement plans	(16,962)	(2,519)	498	(18,983)
TOTAL	\$ (14,704)	\$ (15,240)	\$ (2,366)	\$ (32,310)

Details about accumulated other comprehensive income components	Three Months Ended September 30, 2019		
	Amount reclassified from accumulated other comprehensive income (in thousands)		Affected line item in the statement where net income is presented
Unrealized gains and losses	\$ 6		Net securities gains (losses)
on available-for-sale	(2)		Income tax expense
securities	\$ 4		Net of tax
Amortization of	\$ (389)	(a) Salary and benefits	
retirement plan items	86	Income tax expense	
	\$ (303)	Net of tax	
Total reclassifications for the period	\$ (299)	Net of tax	

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

Details about accumulated other comprehensive income components	Nine Months Ended September 30, 2019		Affected line item in the statement where net income is presented
	Amount reclassified from accumulated other comprehensive income		
	(in thousands)		
Unrealized gains and losses	\$	18	Net securities gains (losses)
on available-for-sale		(5)	Income tax expense
securities	\$	13	Net of tax
Amortization of	\$	(1,168)	(a) Salary and benefits
retirement plan items		258	Income tax expense
	\$	(910)	Net of tax
Total reclassifications for the period	\$	(897)	Net of tax

Details about accumulated other comprehensive income components	Three Months Ended September 30, 2018		Affected line item in the statement where net income is presented
	Amount reclassified from accumulated other comprehensive income		
	(in thousands)		
Unrealized gains and losses	\$	3	Net securities gains (losses)
on available-for-sale		(1)	Income tax expense
securities	\$	2	Net of tax
Amortization of	\$	(362)	(a) Salary and benefits
retirement plan items		81	Income tax expense
	\$	(281)	Net of tax
Total reclassifications for the period	\$	(279)	Net of tax

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

Details about accumulated other comprehensive income components	Nine Months Ended September 30, 2018		Affected line item in the statement where net income is presented
	Amount reclassified from accumulated other comprehensive income		
	(in thousands)		
Unrealized gains and losses	\$	5	Net securities gains (losses)
on available-for-sale		(1)	Income tax expense
securities	\$	4	Net of tax
Amortization of	\$	(1,085)	(a) Salary and benefits
retirement plan items		242	Income tax expense
	\$	(843)	Net of tax
Total reclassifications for the period	\$	(839)	Net of tax

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The Corporation leases certain branches under operating leases. At September 30, 2019, the Corporation had lease liabilities totaling \$6,193,000 and right-of-use assets totaling \$6,184,000 related to these leases. Lease liabilities and right-of-use assets are reflected in other liabilities and other assets, respectively. For the three months ended September 30, 2019, the weighted average remaining lease term for operating leases was 11.7 years and the weighted average discount rate used in the measurement of operating lease liabilities was 2.92%.

The calculated amount of the lease liabilities and right-of-use assets are impacted by the length of the lease term and the discount rate used to present value the minimum lease payments. The Corporation's lease agreements often include one or more options to renew at the Corporation's discretion. If at lease inception, the Corporation considers the exercising of a renewal option to be reasonably certain, the Corporation will include the extended term in the calculation of the lease liability and right-of-use asset. Regarding the discount rate, the new standard requires the use of the rate implicit in the lease whenever this rate is readily determinable. As this rate is rarely determinable, the Corporation utilizes its incremental borrowing rate at lease inception, on a collateralized basis, over a similar term. For operating leases existing prior to January 1, 2019, the rate for the remaining lease term as of January 1, 2019 was used.

The following table represents lease costs and other lease information. As the Corporation elected, not to separate lease and non-lease components and instead to account for them as a single lease component, the variable lease cost primarily represents variable payments such as common area maintenance and utilities.

Lease costs were as follows:

(Dollar amounts in thousands)	Nine Months Ended September 30, 2019
Operating lease cost	\$ 698
Short-term lease cost	42
Variable lease cost	54
Total lease cost	<u>\$ 794</u>

Other information:

Cash paid for amounts included in the measurement of operating lease liabilities	670
Right-of-use assets obtained in exchange for new operating lease liabilities	6,643

Future minimum payments for operating leases with initial or remaining terms of one year or more as of September 30, 2019 were as follows:

(Dollar amounts in thousands)	September 30, 2019
Twelve Months Ended September 30,	
2020	\$ 843
2021	761
2022	763
2023	735
2024	650
Thereafter	3,583
Total Future Minimum Lease Payments	<u>7,335</u>
Amounts Representing Interest	(1,142)
Present Value of Net Future Minimum Lease Payments	<u>\$ 6,193</u>

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

The purpose of this discussion is to point out key factors in the Corporation's recent performance compared with earlier periods. The discussion should be read in conjunction with the financial statements beginning on page three of this report. All figures are for the consolidated entities. It is presumed the readers of these financial statements and of the following narrative have previously read the Corporation's financial statements for 2018 in the 10-K filed for the fiscal year ended December 31, 2018.

This Quarterly Report on Form 10-Q contains forward-looking statements. Forward-looking statements provide current expectations or forecasts of future events and are not guarantees of future performance, nor should they be relied upon as representing management's views as of any subsequent date. The forward-looking statements are based on management's expectations and are subject to a number of risks and uncertainties. Although management believes that the expectations reflected in such forward-looking statements are reasonable, actual results may differ materially from those expressed or implied in such statements. Risks and uncertainties that could cause actual results to differ materially include, without limitation, the Corporation's ability to effectively execute its business plans; changes in general economic and financial market conditions; changes in interest rates; changes in the competitive environment; continuing consolidation in the financial services industry; new litigation or changes in existing litigation; losses, customer bankruptcy, claims and assessments; changes in banking regulations or other regulatory or legislative requirements affecting the Corporation's business; and changes in accounting policies or procedures as may be required by the Financial Accounting Standards Board or other regulatory agencies. Additional information concerning factors that could cause actual results to differ materially from those expressed or implied in the forward-looking statements is available in the Corporation's Form 10-K for the year ended December 31, 2018, and subsequent filings with the United States Securities and Exchange Commission (SEC). Copies of these filings are available at no cost on the SEC's Web site at www.sec.gov or on the Corporation's Web site at www.first-online.com. Management may elect to update forward-looking statements at some future point; however, it specifically disclaims any obligation to do so.

Critical Accounting Policies

Certain of the Corporation's accounting policies are important to the portrayal of the Corporation's financial condition and results of operations, since they require management to make difficult, complex or subjective judgments, some of which may relate to matters that are inherently uncertain. Estimates associated with these policies are susceptible to material changes as a result of changes in facts and circumstances. Facts and circumstances which could affect these judgments include, without limitation, changes in interest rates, in the performance of the economy or in the financial condition of borrowers. Management believes that its critical accounting policies include determining the allowance for loan losses and the valuation of goodwill and valuing investment securities. See further discussion of these critical accounting policies in the 2018 Form 10-K.

Summary of Operating Results

Net income for the three months ended September 30, 2019 was \$12.3 million, compared to \$11.3 million for the same period of 2018. Basic earnings per share decreased to \$0.93 for the first quarter of 2019 compared to \$0.92 for the same period in 2018. Return on Assets and Return on Equity were 1.33% and 9.97% respectively, for the three months ended September 30, 2019 compared to 1.53% and 10.58% for the three months ended September 30, 2018. Net income for the nine months ended September 30, 2019 was \$34.5 million, compared to \$35.5 million for the same period of 2018. Basic earnings per share decreased to \$2.74 for the first nine months of 2019 compared to \$2.90 for same period of 2018. Return on Assets and Return on Equity were 1.42% and 9.74% respectively, for the nine months ended September 30, 2019 compared to 1.59% and 11.23% for the nine months ended September 30, 2018. These quarterly comparisons and the ones following include the Corporation's acquisition of HopFed Bancorp, Hopkinsville, Kentucky on July 27, 2019. Total assets acquired were \$927 million, including \$675 million in loans. The acquisition also included \$736 million in deposits. Acquisition related expenses from the transaction are also included in the expenses in each quarterly comparison.

The primary components of income and expense affecting net income are discussed in the following analysis.

Net Interest Income

The Corporation's primary source of earnings is net interest income, which is the difference between the interest earned on loans and other investments and the interest paid for deposits and other sources of funds. Net interest income increased \$5.2 million in the three months ended September 30, 2019 to \$34.0 million from \$28.8 million in the same period in 2018. The net interest margin for the three months ended September 30, 2019 is 4.04% compared to 4.29% for the same period of 2018, a 5.83% decrease. Net interest income increased \$6.2 million in the nine months ended September 30, 2019 to \$93.2 million from \$87.0 million in the same period in 2018. The net interest margin for the nine months ended September 30, 2019 is 4.21% compared to 4.31% for the same period in 2018. A second quarter 2018 recovery of fees on nonaccrual increased interest income \$2.4 million.

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Non-Interest Income

Non-interest income for the three months ended September 30, 2019 was \$9.7 million compared to \$8.9 million for the same period of 2018. Non-interest income for the nine months ended September 30, 2019 was \$27.1 million compared to \$30.0 million for the same period of 2018. A second quarter 2018 recovery of previous other-than-temporary impairment increased non-interest income \$4.2 million in 2018.

Non-Interest Expenses

The Corporation's non-interest expense for the quarter ended September 30, 2019 was \$27.4 million compared to \$22.3 million for the same period in 2018. The Corporation's non-interest expense for the nine months ended September 30, 2019 increased by \$6.4 million to \$74.6 million compared to the same period in 2018.

Allowance for Loan Losses

The Corporation's provision for loan losses remained stable when comparing \$1.5 million for third quarter of 2019 to \$1.5 million for the same period of 2018. Net charge offs for the third quarter of 2019 were \$2.0 million compared to \$1.2 million for the same period of 2018. The provision for loan losses decreased \$1.1 million to \$3.2 million for the nine months ended September 30, 2019 compared to \$4.3 million for the same period of 2018. Net charge offs for the first nine months of 2019 decreased \$69 thousand to \$3.8 million compared to the same period of 2018. Loans acquired in a business combination are recorded at fair value and therefore do not have an allowance recorded. Thus the loans acquired from HopFed have no allowance related to that loan portfolio. Loan allowance will not be recorded on the HopFed loan portfolio, unless there is additional deterioration in the future. Based on management's analysis of the current portfolio, an evaluation that includes consideration of historical loss experience, non-performing loans trends, and probable incurred losses on identified problem loans, management believes the allowance is adequate.

Income Tax Expense

The Corporation's effective income tax rate for the first nine months of 2019 decreased from the same period in 2018.

Non-performing Loans

Non-performing loans consist of (1) non-accrual loans on which the ultimate collectability of the full amount of interest is uncertain, (2) loans which have been renegotiated to provide for a reduction or deferral of interest or principal because of a deterioration in the financial position of the borrower, and (3) loans past due ninety days or more as to principal or interest. Non-performing loans decreased to \$14.4 million at September 30, 2019 compared to \$16.6 million at December 31, 2018. Nonperforming loans decreased 11.1% compared to \$16.2 million as of September 30, 2018. A summary of non-performing loans at September 30, 2019 and December 31, 2018 follows:

	(000's)	
	September 30, 2019	December 31, 2018
Non-accrual loans	\$ 9,533	\$ 10,974
Accruing restructured loans	3,320	3,702
Nonaccrual restructured loans	807	1,104
Accruing loans past due over 90 days	744	798
	<u>\$ 14,404</u>	<u>\$ 16,578</u>
Ratio of the allowance for loan losses as a percentage of non-performing loans	137.5%	123.3%

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

	(000's)	
	September 30, 2019	December 31, 2018
<u>Non-accrual loans</u>		
Commercial loans	\$ 5,547	\$ 6,851
Residential loans	3,456	3,618
Consumer loans	530	505
	<u>\$ 9,533</u>	<u>\$ 10,974</u>
<u>Past due 90 days or more</u>		
Commercial loans	\$ —	\$ —
Residential loans	567	630
Consumer loans	177	168
	<u>\$ 744</u>	<u>\$ 798</u>

Interest Rate Sensitivity and Liquidity

First Financial Corporation has established risk measures, limits and policy guidelines for managing interest rate risk and liquidity. Responsibility for management of these functions resides with the Asset Liability Committee. The primary goal of the Asset Liability Committee is to maximize net interest income within the interest rate risk limits approved by the Board of Directors.

Interest Rate Risk

Management considers interest rate risk to be the Corporation's most significant market risk. Interest rate risk is the exposure to changes in net interest income as a result of changes in interest rates. Consistency in the Corporation's net interest income is largely dependent on the effective management of this risk.

The Asset Liability position is measured using sophisticated risk management tools, including earning simulation and market value of equity sensitivity analysis. These tools allow management to quantify and monitor both short-term and long-term exposure to interest rate risk. Simulation modeling measures the effects of changes in interest rates, changes in the shape of the yield curve and the effects of embedded options on net interest income. This measure projects earnings in the various environments over the next three years. It is important to note that measures of interest rate risk have limitations and are dependent on various assumptions. These assumptions are inherently uncertain and, as a result, the model cannot precisely predict the impact of interest rate fluctuations on net interest income. Actual results will differ from simulated results due to timing, frequency and amount of interest rate changes as well as overall market conditions. The Committee has performed a thorough analysis of these assumptions and believes them to be valid and theoretically sound. These assumptions are continuously monitored for behavioral changes.

The Corporation from time to time utilizes derivatives to manage interest rate risk. Management continuously evaluates the merits of such interest rate risk products but does not anticipate the use of such products to become a major part of the Corporation's risk management strategy.

The table below shows the Corporation's estimated sensitivity profile as of September 30, 2019. The change in interest rates assumes a parallel shift in interest rates of 100 and 200 basis points. Given a 100 basis point increase in rates, net interest income would increase 2.63% over the next 12 months and increase 5.47% over the following 12 months. Given a 100 basis point decrease in rates, net interest income would decrease 3.81% over the next 12 months and decrease 6.91% over the following 12 months. These estimates assume all rate changes occur overnight and management takes no action as a result of this change.

Basis Point Interest Rate Change	Percentage Change in Net Interest Income		
	12 months	24 months	36 months
Down 200	-6.25 %	-10.97 %	-15.62 %
Down 100	-3.81	-6.91	-9.95
Up 100	2.63	5.47	8.75
Up 200	2.67	8.16	14.70

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

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Liquidity Risk

Liquidity represents an institution's ability to provide funds to satisfy demands from depositors, borrowers, and other creditors by either converting assets into cash or accessing new or existing sources of incremental funds. Generally the Corporation relies on deposits, loan repayments and repayments of investment securities as its primary sources of funds. The Corporation has \$17.8 million of investments that mature throughout the next 12 months. The Corporation also anticipates \$140 million of principal payments from mortgage-backed securities. Given the current rate environment, the Corporation anticipates \$38.9 million in securities to be called within the next 12 months. The Corporation also has unused borrowing capacity available with the Federal Home Loan Bank of Indianapolis and several correspondent banks. With these sources of funds, the Corporation currently anticipates adequate liquidity to meet the expected obligations of its customers.

Financial Condition

Comparing the first nine months of 2019 to the same period in 2018, loans, net of deferred loan costs, have increased \$726 million to \$2.7 billion. Deposits increased 33.8% to \$3.2 billion at September 30, 2019 compared to September 30, 2018. Shareholders' equity increased 30.1% or \$128.8 million. This financial performance increased book value per share 16.3% to \$40.59 at September 30, 2019 from \$34.91 at September 30, 2018. Book value per share is calculated by dividing the total shareholders' equity by the number of shares outstanding. These comparisons include the Corporation's acquisition of HopFed Bancorp, Hopkinsville, Kentucky on July 27, 2019. Total assets acquired were \$926 million, including \$675 million in loans. The acquisition also included \$736 million in deposits.

Capital Adequacy

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

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

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

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

To meet adequately capitalized regulatory requirements, an institution must maintain a Tier 1 capital ratio of 8.50 percent and a Total capital ratio of 10.50 percent. A "well-capitalized" institution must generally maintain capital ratios 200 bps higher than the minimum guidelines. The risk-based capital rules have been further supplemented by a Tier 1 leverage ratio, defined as Tier 1 capital divided by quarterly average total assets, after certain adjustments. BHCs must have a minimum Tier 1 leverage ratio of at least 4.0 percent. National banks must maintain a Tier 1 leverage ratio of at least 5.0 percent to be classified as "well capitalized." Failure to meet the capital requirements established by the joint agencies can lead to certain mandatory and discretionary actions by regulators that could have a material adverse effect on the Corporation's financial position. Below are the capital ratios for the Corporation and lead bank.

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

The ratios for September 30, 2019 were impacted by the acquisition of HopFed Bancorp, which impacted both capital and total assets.

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	September 30, 2019	December 31, 2018	To Be Well Capitalized
Common equity tier 1 capital			
Corporation	15.09%	18.48%	N/A
First Financial Bank	14.76%	17.99%	6.50%
Total risk-based capital			
Corporation	15.72%	19.36%	N/A
First Financial Bank	15.27%	18.71%	10.00%
Tier I risk-based capital			
Corporation	15.09%	18.48%	N/A
First Financial Bank	14.76%	17.99%	8.00%
Tier I leverage capital			
Corporation	13.07%	14.59%	N/A
First Financial Bank	12.77%	14.19%	5.00%

ITEM 4. Controls and Procedures

First Financial Corporation's management is responsible for establishing and maintaining effective disclosure controls and procedures, as defined under Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934. As of September 30, 2019, an evaluation was performed under the supervision and with the participation of management, including the principal executive officer and principal financial officer, of the effectiveness of the design and operation of the Corporation's disclosure controls and procedures. Based on that evaluation, management, including the principal executive officer and principal financial officer, concluded that the Corporation's disclosure controls and procedures as of September 30, 2019 were effective in ensuring material information required to be disclosed in this Quarterly Report on Form 10-Q was recorded, processed, summarized, and reported on a timely basis. Additionally, there was no change in the Corporation's internal control over financial reporting that occurred during the quarter ended September 30, 2019 that has materially affected, or is reasonably likely to materially affect, the Corporation's internal control over financial reporting.

PART II – Other InformationITEM 1. Legal Proceedings.

There are no material pending legal proceedings, other than routine litigation incidental to the business of the Corporation or its subsidiaries, to which the Corporation or any of the subsidiaries is a party to or of which any of their respective property is subject. Further, there is no material legal proceeding in which any director, officer, principal shareholder, or affiliate of the Corporation or any of its subsidiaries, or any associate of such director, officer, principal shareholder or affiliate is a party, or has a material interest, adverse to the Corporation or any of its subsidiaries.

ITEM 1A. Risk Factors.

There have been no material changes in the risk factors from those disclosed in the Corporation's 2018 Form 10-K filed for December 31, 2018.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds.

(a) None.

(b) Not applicable.

(c) Purchases of Equity Securities

The Corporation periodically acquires shares of its common stock directly from shareholders in individually negotiated transactions. On February 3, 2016 First Financial Corporation issued a press release announcing that its Board of Directors has authorized a stock repurchase program pursuant to which up to 5% of the Corporations outstanding shares of common stock, or approximately 637,500 shares may be repurchased.

Following is certain information regarding shares of common stock purchased by the Corporation during the quarter covered by this report.

	(a) Total Number Of Shares Purchased	(b) Average Price Paid Per Share	(c) Total Number Of Shares Purchased As Part Of Publicly Announced Plans Or Programs *	(c) Maximum Number of Shares That May Yet Be Purchased *
July 1-31, 2019	—	—	N/A	N/A
August 1-31, 2019	—	—	—	—
September 1-30, 2019	—	—	—	—
Total	—	—	—	71,882

ITEM 3. Defaults upon Senior Securities.

Not applicable.

ITEM 4. Mine Safety Disclosures

Not applicable.

ITEM 5. Other Information.

Not applicable.

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ITEM 6. Exhibits.

Exhibit No.:	Description of Exhibit:
3.1	Amended and Restated Articles of Incorporation of First Financial Corporation, incorporated by reference to Exhibit 3(i) of the Corporation's Form 10-Q filed for the quarter ended September 30, 2002.
3.2	Code of By-Laws of First Financial Corporation, incorporated by reference to Exhibit 3(ii) of the Corporation's Form 8-K filed on August 24, 2012.
10.1*	Employment Agreement for Norman L. Lowery, dated and effective July 1, 2019, incorporated by reference to Exhibit 10.01 of the Corporation's Form 8-K filed on April 3, 2019.
10.2*	2001 Long-Term Incentive Plan of First Financial Corporation, incorporated by reference to Exhibit 10.3 of the Corporation's Form 10-Q filed for the quarter ended September 30, 2002.
10.5*	2005 Long-Term Incentive Plan of First Financial Corporation, incorporated by reference to Exhibit 10.7 of the Corporation's Form 8-K filed on September 4, 2007.
10.6*	2005 Executives Deferred Compensation Plan, incorporated by reference to Exhibit 10.5 of the Corporation's Form 8-K filed on September 4, 2007.
10.7*	2005 Executives Supplemental Retirement Plan, incorporated by reference to Exhibit 10.6 of the Corporation's Form 8-K filed on September 4, 2007.
10.9*	First Financial Corporation 2010 Long-Term Incentive Compensation Plan incorporated by reference to Exhibit 10.9 of the Corporation's Form 10-K filed March 15, 2011.
10.10*	First Financial Corporation 2011 Short-Term Incentive Compensation Plan incorporated by reference to Exhibit 10.10 of the Corporation's Form 10-K filed March 15, 2011.
10.11*	First Financial Corporation 2011 Omnibus Equity Incentive Plan incorporated by reference to Exhibit 10.11 of the Corporation's Form 10-Q for the quarter ended March 31, 2011 filed on May 9, 2011.
10.12*	Form of Restricted Stock Award Agreement under the First Financial Corporation 2011 Omnibus Equity Incentive Plan incorporated by reference to Exhibit 10.12 of the Corporation's Form 10-Q for the quarter ended March 31, 2012 filed on May 10, 2012.
10.13*	Employment Agreement for Norman D. Lowery, dated January 28, 2019, incorporated by reference to Exhibit 10.1 of the Corporation's Form 8-K filed February 1, 2019.
10.14*	Employment Agreement for Rodger A. McHargue, dated January 28, 2019, incorporated by reference to Exhibit 10.2 of the Corporation's Form 8-K filed February 1, 2019.
10.15*	Employment Agreement for Steven H. Holliday, dated January 28, 2019, incorporated by reference to Exhibit 10.3 of the Corporation's Form 8-K filed February 1, 2019.
10.16*	Employment Agreement for Karen L. Stinson-Milienu, dated January 28, 2019, incorporated by reference to Exhibit 10.4 of the Corporation's Form 8-K filed February 1, 2019.
31.1	Sarbanes-Oxley Act 302 Certification for Quarterly Report on Form 10-Q for the quarter ended September 30, 2019 by Principal Executive Officer, dated November 7, 2019.
31.2	Sarbanes-Oxley Act 302 Certification for Quarterly Report on Form 10-Q for the quarter ended September 30, 2019 by Principal Financial Officer, dated November 7, 2019.
32.1	Certification, dated November 7, 2019, of Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2005 on Form 10-Q for the quarter ended September 30, 2019.
101.1	Financial statements from the Quarterly Report on Form 10-Q of the Corporation for the quarter ended September 30, 2019, formatted in XBRL pursuant to Rule 405 : (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income and Comprehensive Income, (iii) Consolidated Statements of Cash Flows, (iv) Consolidated Statements of Shareholders' Equity, and (v) Notes to Consolidated Financial Statements, as blocks of text and in detail**.

*Management contract or compensatory plan or arrangement.

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

SIGNATURES

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

FIRST FINANCIAL CORPORATION

(Registrant)

Date: November 7, 2019 By /s/ Norman L. Lowery
Norman L. Lowery, Vice Chairman, President and CEO
(Principal Executive Officer)

Date: November 7, 2019 By /s/ Rodger A. McHargue
Rodger A. McHargue, Treasurer and CFO
(Principal Financial Officer)

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Section 2: EX-31.1 (EXHIBIT 31.1)

Exhibit 31.1

**Sarbanes-Oxley Act of 2002, Section 302
Certification of Principal Executive Officer**

I, Norman L. Lowery, certify that:

- 1 I have reviewed this quarterly report on Form 10-Q of First Financial Corporation;
- 2 Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3 Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- 4 The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purpose in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- 5 The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or

persons performing the equivalent functions):

- a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: November 7, 2019

By /s/ Norman L. Lowery

Norman L. Lowery,
Vice Chairman, President and CEO
(Principal Executive Officer)

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Section 3: EX-31.2 (EXHIBIT 31.2)

Exhibit 31.2

Sarbanes-Oxley Act of 2002, Section 302 Certification of Principal Executive Officer

I, Rodger A. McHargue, certify that:

- 1 I have reviewed this quarterly report on Form 10-Q of First Financial Corporation;
- 2 Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3 Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- 4 The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purpose in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- 5 The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: November 7, 2019

By /s/ Rodger A. McHargue

Rodger A. McHargue

Treasurer and CFO

(Principal Financial Officer)

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Section 4: EX-32.1 (EXHIBIT 32.1)

Exhibit 32.1

Sarbanes-Oxley Act of 2002, Section 906 Certification of Principal Executive and Principal Financial Officers

In connection with the Quarterly Report on Form 10-Q of First Financial Corporation (the "Company") for the Quarterly period ended September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Norman L. Lowery, as the Chief Executive Officer of the Company, and Rodger A. McHargue, as the Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to his knowledge:

1. This Report fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934, and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

November 7, 2019

By /s/ Norman L. Lowery

Norman L. Lowery, Vice Chairman, President & CEO

(Principal Executive Officer)

November 7, 2019

By /s/ Rodger A. McHargue

Rodger A. McHargue, Treasurer & CFO

(Principal Financial Officer)

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