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, 2020

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ____________ to ____________

Commission File Number 0-16759

FIRST FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

Indiana	35-1546989
(State or other jurisdiction incorporation or organization)	(I.R.S. Employer Identification No.)
One First Financial Plaza, Terre Haute, IN	47807
(Address of principal executive office)	(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, par value $0.125 per share	**THFF**	**The NASDAQ Stock Market LLC**

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 2, 2020, the registrant had outstanding 13,714,524 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, 2020	December 31, 2019
	(unaudited)	
ASSETS		
Cash and due from banks	$ 388,440	$ 127,426
Federal funds sold	659	7,500
Securities available-for-sale	956,239	926,717
Loans:		
Commercial	1,657,083	1,584,447
Residential	626,441	682,077
Consumer	468,684	386,006
	2,752,208	2,652,530
(Less) plus:		
Net deferred loan (fees)/costs	1,285	3,860
Allowance for loan losses	(26,960)	(19,943)
	2,726,533	2,636,447
Restricted stock	15,012	15,394
Accrued interest receivable	18,482	18,523
Premises and equipment, net	62,968	62,576
Bank-owned life insurance	95,459	94,251
Goodwill	78,592	78,592
Other intangible assets	9,405	10,643
Other real estate owned	3,465	3,625
Other assets	34,742	41,556
TOTAL ASSETS	$ 4,389,996	$ 4,023,250
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest-bearing	$ 709,591	$ 547,189
Interest-bearing:		
Certificates of deposit exceeding the FDIC insurance limits	109,830	126,738
Other interest-bearing deposits	2,784,932	2,601,430
	3,604,353	3,275,357
Short-term borrowings	95,249	80,119
Other borrowings	10,845	30,973
Other liabilities	72,454	79,193
TOTAL LIABILITIES	3,782,901	3,465,642
Shareholders' equity		
Common stock, $0.125 stated value per share;		
Authorized shares-40,000,000		
Issued shares-16,075,154 in 2020 and 16,055,466 in 2019		
Outstanding shares-13,714,524 in 2020 and 13,741,825 in 2019	2,006	2,005
Additional paid-in capital	140,308	139,694
Retained earnings	523,029	492,055
Accumulated other comprehensive income/(loss)	12,121	(7,501)
Less: Treasury shares at cost-2,360,630 in 2020 and 2,313,641 in 2019	(70,369)	(68,645)
TOTAL SHAREHOLDERS' EQUITY	607,095	557,608
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 4,389,996	$ 4,023,250

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,	
	2020	2019	2020	2019
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
INTEREST INCOME:				
Loans, including related fees	$ 34,077	$ 33,363	$ 102,335	$ 87,650
Securities:				
Taxable	3,005	3,907	10,658	11,104
Tax-exempt	1,994	1,959	5,940	5,699
Other	463	366	1,265	1,017
TOTAL INTEREST INCOME	39,539	39,595	120,198	105,470
INTEREST EXPENSE:				
Deposits	2,689	5,069	10,238	11,202
Short-term borrowings	107	305	475	786
Other borrowings	212	222	709	305
TOTAL INTEREST EXPENSE	3,008	5,596	11,422	12,293
NET INTEREST INCOME	36,531	33,999	108,776	93,177
Provision for loan losses	4,425	1,500	10,080	3,200
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	32,106	32,499	98,696	89,977
NON-INTEREST INCOME:				
Trust and financial services	1,210	1,329	4,032	3,657
Service charges and fees on deposit accounts	2,516	3,227	7,616	8,586
Other service charges and fees	4,269	3,720	11,468	10,242
Securities gains (losses), net	5	6	230	18
Gain on sales of mortgage loans	2,910	865	4,813	1,781
Other	829	599	1,451	2,841
TOTAL NON-INTEREST INCOME	11,739	9,746	29,610	27,125
NON-INTEREST EXPENSE:				
Salaries and employee benefits	15,474	14,031	45,769	39,332
Occupancy expense	2,003	1,804	6,094	5,432
Equipment expense	2,739	2,117	7,873	5,685
FDIC Expense	135	155	(46)	494
Other	6,779	9,302	21,877	23,651
TOTAL NON-INTEREST EXPENSE	27,130	27,409	81,567	74,594
INCOME BEFORE INCOME TAXES	16,715	14,836	46,739	42,508
Provision for income taxes	2,715	2,579	8,634	8,000
NET INCOME	14,000	12,257	38,105	34,508
OTHER COMPREHENSIVE INCOME (LOSS)				
Change in unrealized gains/(losses) on securities, net of reclassifications and taxes	2,223	4,124	18,451	22,689
Change in funded status of post retirement benefits, net of taxes	383	303	1,171	910
COMPREHENSIVE INCOME	$ 16,606	$ 16,684	$ 57,727	$ 58,107
PER SHARE DATA				
Basic and Diluted Earnings per Share	$ 1.02	$ 0.93	$ 2.78	$ 2.74
Weighted average number of shares outstanding (in thousands)	13,715	13,141	13,723	12,574

See accompanying notes.

FIRST FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
Three Months Ended
September 30, 2020, and 2019
(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, 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	$ 2,004	$ 139,073	$ 484,834	$ 145	$ (69,474)	$ 556,582
Balance, July 1, 2020	$ 2,006	$ 140,103	$ 509,029	$ 9,515	$ (70,369)	$ 590,284
Net income	—	—	14,000	—	—	14,000
Other comprehensive income	—	—	—	2,606	—	2,606
Omnibus Equity Incentive Plan	—	205	—	—	—	205
Balance, September 30, 2020	$ 2,006	$ 140,308	$ 523,029	$ 12,121	$ (70,369)	$ 607,095

See accompanying notes.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
Nine Months Ended
September 30, 2020, and 2019
(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, 2019	$ 1,824	$ 76,774	$ 456,716	$ (23,454)	$ (69,159)	$ 442,701
Net income	—	—	34,508	—	—	34,508
Other comprehensive loss	—	—	—	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, $.51 per share	—	—	(6,390)	—	—	(6,390)
Balance, September 30, 2019	$ 2,004	$ 139,073	$ 484,834	$ 145	$ (69,474)	$ 556,582
Balance, January 1, 2020	$ 2,005	$ 139,694	$ 492,055	$ (7,501)	$ (68,645)	$ 557,608
Net income	—	—	38,105	—	—	38,105
Other comprehensive income	—	—	—	19,622	—	19,622
Omnibus Equity Incentive Plan	1	614	—	—	—	615
Treasury shares purchased (46,989 shares)	—	—	—	—	(1,724)	(1,724)
Cash dividends, $.52 per share	—	—	(7,131)	—	—	(7,131)
Balance, September 30, 2020	$ 2,006	$ 140,308	$ 523,029	$ 12,121	$ (70,369)	$ 607,095

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

	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	$ 38,105	$ 34,508
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization (accretion) of premiums and discounts on investments	5,149	3,425
Provision for loan losses	10,080	3,200
Securities (gains) losses	(230)	(18)
Gain on sales of mortgage loans	(4,813)	(1,781)
(Gain) Loss on sale of other real estate	140	37
Restricted stock compensation	615	601
Depreciation and amortization	4,527	3,121
Other, net	(780)	(3,953)
NET CASH FROM OPERATING ACTIVITIES	52,793	39,140
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of securities available-for-sale	28,161	—
Calls, maturities and principal reductions on securities available-for-sale	181,963	117,532
Purchases of securities available-for-sale	(221,830)	(71,596)
Loans made to customers, net of repayment	(92,854)	(61,496)
Redemption of restricted stock	400	1,228
Purchase of restricted stock	(18)	(34)
Payments to acquire business	—	(12,629)
Proceeds from sales of other real estate owned	487	671
Net change in federal funds sold	6,841	—
Additions to premises and equipment	(3,681)	(1,537)
NET CASH FROM INVESTING ACTIVITIES	(100,531)	(27,861)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net change in deposits	329,929	26,903
Net change in short-term borrowings	15,130	(44,414)
Maturities of other borrowings	(37,010)	(192,000)
Proceeds from other borrowings	16,700	217,000
Purchase of treasury stock	(1,724)	(315)
Dividends paid	(14,273)	(12,648)
NET CASH FROM FINANCING ACTIVITIES	308,752	(5,474)
NET CHANGE IN CASH AND CASH EQUIVALENTS	261,014	5,805
CASH AND DUE FROM BANKS, BEGINNING OF PERIOD	127,426	74,388
CASH AND DUE FROM BANKS, END OF PERIOD	$ 388,440	$ 80,193

See accompanying notes.

The accompanying September 30, 2020 and 2019 consolidated financial statements are unaudited. The December 31, 2019 consolidated financial statements are as reported in the First Financial Corporation (the "Corporation") 2019 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, 2019.

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.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was signed into law. It contains substantial tax and spending provisions intended to address the impact of the COVID-19 pandemic. The goal of the CARES Act is to prevent a severe economic downturn through various measures, including direct financial aid to American families and economic stimulus to significantly impacted industry sectors. The CARES Act also includes a range of other provisions designed to support the U.S. economy and mitigate the impact of COVID-19 on financial institutions and their customers, including through the authorization of various programs and measures that the U.S. Department of the Treasury, the Small Business Administration, the Federal Reserve Board, and other federal banking agencies may or are required to implement. Further, in response to the COVID-19 outbreak, the Federal Reserve Board has implemented or announced a number of facilities to provide emergency liquidity to various segments of the U.S. economy and financial market.

The CARES Act includes a provision that permits a financial institution to elect to suspend temporarily troubled debt restructuring accounting under ASC Subtopic 310-40 in certain circumstances ("section 4013"). To be eligible under section 4013, a loan modification must be (1) related to COVID-19; (2) executed on a loan that was not more than 30 days past due as of December 31, 2019; and (3) executed between March 1, 2020, and the earlier of (A) 60 days after the date of termination of the National Emergency or (B) December 31, 2020. In response to this section of the CARES Act, the federal banking agencies issued a revised interagency statement on April 7, 2020 that, in consultation with the Financial Accounting Standards Board, confirmed that for loans not subject to section 4013, short-term modifications made on a good faith basis in response to COVID-19 to borrowers who were current prior to any relief are not troubled debt restructurings under ASC Subtopic 310-40. This includes short-term (e.g., up to six months) modifications such as payment deferrals, fee waivers, extensions of repayment terms, or delays in payment that are insignificant. Borrowers considered current are those that are less than 30 days past due on their contractual payments at the time a modification program is implemented.

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 three months ended 2020 and 2019, 19,688 and 19,783 shares were awarded, respectively. These shares had a grant date value of $837 thousand and $841 thousand for 2020 and 2019, 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.

The extent to which the COVID-19 pandemic impacts the Corporation's business, liquidity, asset valuations, results of operations, and financial condition, as well as its regulatory capital and liquidity ratios, will depend on future developments, which are highly uncertain, including the scope and duration of the pandemic and actions taken by governmental authorities and other third parties in response to the pandemic. Moreover, the effects of the COVID-19 pandemic may have a material adverse effect on all or a combination of valuation impairments on the Corporation's intangible assets, investments, loans, or deferred tax assets.

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, 2020 Commercial	Residential	Consumer	Unallocated	Total
Beginning balance	$ 10,149	$ 1,876	$ 10,054	$ 1,206	$ 23,285
Provision for loan losses	1,992	17	1,695	721	4,425
Loans charged -off	(160)	(296)	(1,542)	—	(1,998)
Recoveries	147	185	916	—	1,248
Ending Balance	$ 12,128	$ 1,782	$ 11,123	$ 1,927	$ 26,960

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	$ 9,006	$ 1,323	$ 8,112	$ 1,358	$ 19,799

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, 2020 Commercial	Residential	Consumer	Unallocated	Total
Beginning balance	$ 8,945	$ 1,302	$ 8,304	$ 1,392	$ 19,943
Provision for loan losses	3,325	795	5,425	535	10,080
Loans charged -off	(834)	(719)	(4,889)	—	(6,442)
Recoveries	692	404	2,283	—	3,379
Ending Balance	$ 12,128	$ 1,782	$ 11,123	$ 1,927	$ 26,960

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	$ 9,006	$ 1,323	$ 8,112	$ 1,358	$ 19,799

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, 2020 and December 31, 2019.

Allowance for Loan Losses	September 30, 2020				
(Dollar amounts in thousands)	Commercial	Residential	Consumer	Unallocated	Total
Individually evaluated for impairment	$ 1,685	$ —	$ —	$ —	$ 1,685
Collectively evaluated for impairment	10,443	1,782	11,123	1,927	25,275
Acquired with deteriorated credit quality	—	—	—	—	—
Ending Balance	$ 12,128	$ 1,782	$ 11,123	$ 1,927	$ 26,960

Loans:	September 30, 2020			
(Dollar amounts in thousands)	Commercial	Residential	Consumer	Total
Individually evaluated for impairment	$ 9,366	$ 4,925	$ —	$ 14,291
Collectively evaluated for impairment	1,653,380	623,349	470,546	2,747,275
Acquired with deteriorated credit quality	4,371	—	—	4,371
Ending Balance	$ 1,667,117	$ 628,274	$ 470,546	$ 2,765,937

Allowance for Loan Losses:	December 31, 2019				
(Dollar amounts in thousands)	Commercial	Residential	Consumer	Unallocated	Total
Individually evaluated for impairment	$ 48	$ —	$ —	$ —	$ 48
Collectively evaluated for impairment	8,897	1,302	8,304	1,392	19,895
Acquired with deteriorated credit quality	—	—	—	—	—
Ending Balance	$ 8,945	$ 1,302	$ 8,304	$ 1,392	$ 19,943

Loans	December 31, 2019			
(Dollar amounts in thousands)	Commercial	Residential	Consumer	Total
Individually evaluated for impairment	$ 3,161	$ 3,952	$ —	$ 7,113
Collectively evaluated for impairment	1,584,169	680,069	387,655	2,651,893
Acquired with deteriorated credit quality	7,436	—	—	7,436
Ending Balance	$ 1,594,766	$ 684,021	$ 387,655	$ 2,666,442

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

	September 30, 2020					
(Dollar amounts in thousands)	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	$ 1,458	$ 929	$ —	$ 1,048	$ —	$ —
Farmland	—	—	—	1,161	—	—
Non Farm, Non Residential	3,359	3,359	—	2,596	—	—
Agriculture	—	—	—	—	—	—
All Other Commercial	24	24	—	26	—	—
Residential						
First Liens	3,545	3,545	—	3,609	—	—
Home Equity	—	—	—	—	—	—
Junior Liens	—	—	—	—	—	—
Multifamily	—	—	—	—	—	—
All Other Residential	—	—	—	—	—	—
Consumer						
Motor Vehicle	—	—	—	—	—	—
All Other Consumer	—	—	—	—	—	—
With an allowance recorded:						
Commercial						
Commercial & Industrial	3,749	3,749	1,054	1,140	—	—
Farmland	—	—	—	—	—	—
Non Farm, Non Residential	171	171	—	86	—	—
Agriculture	380	380	380	95	—	—
All Other Commercial	754	754	251	377	—	—
Residential						
First Liens	—	—	—	—	—	—
Home Equity	—	—	—	—	—	—
Junior Liens	—	—	—	—	—	—
Multifamily	1,380	1,380	—	673	—	—
All Other Residential	—	—	—	—	—	—
Consumer						
Motor Vehicle	—	—	—	—	—	—
All Other Consumer	—	—	—	—	—	—
TOTAL	$ 14,820	$ 14,291	$ 1,685	$ 10,811	$ —	$ —

	December 31, 2019					
(Dollar amounts in thousands)	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Income Recognized
With no related allowance recorded:						
Commercial						
Commercial & Industrial	$ 1,519	$ 989	$ —	$ 848	$ —	$ —
Farmland	1,997	1,997	—	1,999	—	—
Non Farm, Non Residential	—	—	—	—	—	—
Agriculture	—	—	—	—	—	—
All Other Commercial	27	27	—	461	—	—
Residential						
First Liens	3,952	3,952	—	4,055	—	—
Home Equity	—	—	—	—	—	—
Junior Liens	—	—	—	—	—	—
Multifamily	—	—	—	—	—	—
All Other Residential	—	—	—	—	—	—
Consumer						
Motor Vehicle	—	—	—	—	—	—
All Other Consumer	—	—	—	—	—	—
With an allowance recorded:						
Commercial						
Commercial & Industrial	148	148	48	1,108	—	—
Farmland	—	—	—	84	—	—
Non Farm, Non Residential	—	—	—	—		—
Agriculture	—	—	—	138	—	—
All Other Commercial	—	—	—	—	—	—
Residential						
First Liens	—	—	—	—	—	—
Home Equity	—	—	—	—	—	—
Junior Liens	—	—	—	—	—	—
Multifamily	—	—	—	—	—	—
All Other Residential	—	—	—	—	—	—
Consumer						
Motor Vehicle	—	—	—	—	—	—
All Other Consumer	—	—	—	—	—	—
TOTAL	$ 7,643	$ 7,113	$ 48	$ 8,693	$ —	$ —

(Dollar amounts in thousands)	Three Months Ended September 30, 2020 Average Recorded Investment	Three Months Ended September 30, 2020 Interest Income Recognized	Three Months Ended September 30, 2020 Cash Basis Interest Income Recognized	Nine Months Ended September 30, 2020 Average Recorded Investment	Nine Months Ended September 30, 2020 Interest Income Recognized	Nine Months Ended September 30, 2020 Cash Basis Interest Income Recognized
With no related allowance recorded:						
Commercial						
Commercial & Industrial	$ 1,026	$ —	$ —	$ 1,048	$ —	$ —
Farmland	662	—	—	1,161	—	—
Non Farm, Non Residential	3,436	—	—	2,596	—	—
Agriculture	—	—	—	—	—	—
All Other Commercial	25	—	—	26	—	—
Residential						
First Liens	3,452	—	—	3,609	—	—
Home Equity	—	—	—	—	—	—
Junior Liens	—	—	—	—	—	—
Multifamily	—	—	—	—	—	—
All Other Residential	—	—	—	—	—	—
Consumer						
Motor Vehicle	—	—	—	—	—	—
All Other Consumer	—	—	—	—	—	—
With an allowance recorded:						
Commercial						
Commercial & Industrial	2,136	—	—	1,140	—	—
Farmland	—	—	—	—	—	—
Non Farm, Non Residential	171	—	—	86	—	—
Agriculture	190	—	—	95	—	—
All Other Commercial	754	—	—	377	—	—
Residential						
First Liens	—	—	—	—	—	—
Home Equity	—	—	—	—	—	—
Junior Liens	—	—	—	—	—	—
Multifamily	1,346	—	—	673	—	—
All Other Residential	—	—	—	—	—	—
Consumer						
Motor Vehicle	—	—	—	—	—	—
All Other Consumer	—	—	—	—	—	—
TOTAL	$ 13,198	$ —	$ —	$ 10,811	$ —	$ —

(Dollar amounts in thousands)	Three Months Ended September 30, 2019 Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Income Recognized	Nine Months Ended September 30, 2019 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	$ —	$ —

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

(Dollar amounts in thousands)	September 30, 2020 Loans Past Due Over 90 Days Still Accruing	Troubled Debt Restructured Accruing	Troubled Debt Restructured Nonaccrual	Nonaccrual Excluding TDR
Commercial				
Commercial & Industrial	$ —	$ —	$ 4	$ 5,681
Farmland	—	—	—	209
Non Farm, Non Residential	—	—	—	3,894
Agriculture	173	—	—	480
All Other Commercial	—	—	—	787
Residential				
First Liens	2,330	2,547	602	2,702
Home Equity	83	—	—	31
Junior Liens	288	122	8	155
Multifamily	—	—	—	1,380
All Other Residential	1	—	—	158
Consumer				
Motor Vehicle	221	—	14	585
All Other Consumer	—	113	538	554
TOTAL	$ 3,096	$ 2,782	$ 1,166	$ 16,616

(Dollar amounts in thousands)	December 31, 2019 Loans Past Due Over 90 Days Still Accruing	Troubled Debt Restructured Accruing	Troubled Debt Restructured Nonaccrual	Nonaccrual Excluding TDR
Commercial				
Commercial & Industrial	$ —	$ —	$ 11	$ 2,191
Farmland	5	—	—	2,410
Non Farm, Non Residential	—	—	—	441
Agriculture	—	—	—	485
All Other Commercial	—	—	—	114
Residential				
First Liens	625	3,007	396	2,876
Home Equity	12	—	—	61
Junior Liens	51	94	9	175
Multifamily	—	—	—	—
All Other Residential	738	—	—	203
Consumer				
Motor Vehicle	227	—	15	138
All Other Consumer	4	239	444	452
TOTAL	$ 1,662	$ 3,340	$ 875	$ 9,546

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, 2020 30-59 Days Past Due	60-89 Days Past Due	Greater than 90 days Past Due	Total Past Due	Current	Total
Commercial						
Commercial & Industrial	$ 644	$ 206	$ 3,754	$ 4,604	$ 726,012	$ 730,616
Farmland	—	—	92	92	123,546	123,638
Non Farm, Non Residential	1,011	—	222	1,233	354,478	355,711
Agriculture	2,037	—	552	2,589	142,984	145,573
All Other Commercial	55	19	786	860	310,719	311,579
Residential						
First Liens	1,636	1,125	2,910	5,671	328,611	334,282
Home Equity	288	25	99	412	62,832	63,244
Junior Liens	58	57	324	439	54,518	54,957
Multifamily	197	—	1,380	1,577	159,565	161,142
All Other Residential	—	7	53	60	14,589	14,649
Consumer						
Motor Vehicle	5,757	772	281	6,810	432,490	439,300
All Other Consumer	183	2	—	185	31,061	31,246
TOTAL	$ 11,866	$ 2,213	$ 10,453	$ 24,532	$ 2,741,405	$ 2,765,937

(Dollar amounts in thousands)	December 31, 2019 30-59 Days Past Due	60-89 Days Past Due	Greater than 90 days Past Due	Total Past Due	Current	Total
Commercial						
Commercial & Industrial	$ 2,885	$ 766	$ 1,379	$ 5,030	$ 594,925	$ 599,955
Farmland	132	—	2,089	2,221	137,730	139,951
Non Farm, Non Residential	3,749	104	—	3,853	398,854	402,707
Agriculture	277	128	—	405	162,794	163,199
All Other Commercial	—	—	109	109	288,845	288,954
Residential						
First Liens	6,452	1,292	1,458	9,202	375,924	385,126
Home Equity	124	63	34	221	70,813	71,034
Junior Liens	384	43	137	564	54,533	55,097
Multifamily	—	—	—	—	148,282	148,282
All Other Residential	1,082	—	890	1,972	22,510	24,482
Consumer						
Motor Vehicle	6,488	983	270	7,741	347,950	355,691
All Other Consumer	228	42	2	272	31,692	31,964
TOTAL	$ 21,801	$ 3,421	$ 6,368	$ 31,590	$ 2,634,852	$ 2,666,442

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During the three and nine months ended September 30, 2020 and 2019, the terms of certain loans were modified as troubled debt restructurings (TDRs). The following tables present the activity for TDRs.

	2020			
(Dollar amounts in thousands)	Commercial	Residential	Consumer	Total
July 1,	$ —	$ 3,231	$ 668	$ 3,899
Added	—	313	81	394
Charged Off	—	—	(30)	(30)
Payments	—	(112)	(54)	(166)
September 30,	$ —	$ 3,432	$ 665	$ 4,097

	2020			
(Dollar amounts in thousands)	Commercial	Residential	Consumer	Total
January 1,	$ 11	$ 3,485	$ 698	$ 4,194
Added	—	436	216	652
Charged Off	—	(6)	(80)	(86)
Payments	(11)	(483)	(169)	(663)
September 30,	$ —	$ 3,432	$ 665	$ 4,097

	2019			
(Dollar amounts in thousands)	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

	2019			
(Dollar amounts in thousands)	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

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 2020 or 2019 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, 2020 and 2019 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, 2020 and 2019. The Corporation has not committed to lend additional amounts as of September 30, 2020 and 2019 to customers with outstanding loans that are classified as troubled debt restructurings. None of the charge-offs during the three and six months ended September 30, 2020 and 2019 were of restructurings that had occurred in the previous 12 months.

The CARES Act includes a provision that permits a financial institution to elect to suspend temporarily troubled debt restructuring accounting under ASC Subtopic 310-40 in certain circumstances (“section 4013”). To be eligible under section 4013, a loan modification must be (1) related to COVID-19; (2) executed on a loan that was not more than 30 days past due as of December 31, 2019; and (3) executed between March 1, 2020, and the earlier of (A) 60 days after the date of termination of the National Emergency or (B) December 31, 2020. In response to this section of the CARES Act, the federal banking agencies issued a revised interagency statement on April 7, 2020 that, in consultation with the Financial Accounting Standards Board, confirmed that for loans not subject to section 4013, short-term modifications made on a good faith basis in response to COVID-19 to borrowers who were current prior to any relief are not troubled debt restructurings under ASC Subtopic 310-40. This includes short-term (e.g., up to six months) modifications such as payment deferrals, fee waivers, extensions of repayment terms, or delays in payment that are insignificant. Borrowers considered current are those that are less than 30 days past due on their contractual payments at the time a modification program is implemented. As of September 30, 2020, 1,431 loans totaling $328 million were modified, related to COVID-19, that were not considered troubled debt restructurings. 1,139 loans totaling $208 million have resumed normal scheduled payments. 292 remaining loans are still under a debt relief plan, which include 42 commercial loans totaling $80 million that have been provided additional payment relief since the initial payment relief plan. 250 loans totaling $40 million are under the original payment relief plan.

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, 2020 and December 31, 2019, and based on the most recent analysis performed, the risk category of loans by class of loans are as follows:

	September 30, 2020					
(Dollar amounts in thousands)	Pass	Special Mention	Substandard	Doubtful	Not Rated	Total
Commercial						
Commercial & Industrial	$ 683,490	$ 17,129	$ 17,801	$ —	$ 9,623	$ 728,043
Farmland	109,589	4,318	7,139	—	199	121,245
Non Farm, Non Residential	318,566	24,066	11,154	—	781	354,567
Agriculture	117,125	9,956	16,083	—	74	143,238
All Other Commercial	306,147	2,987	812	—	44	309,990
Residential						
First Liens	86,007	1,065	8,724	—	237,296	333,092
Home Equity	2,451	—	151	—	60,510	63,112
Junior Liens	2,102	46	400	—	52,279	54,827
Multifamily	159,318	105	1,380	—	—	160,803
All Other Residential	1,406	—	62	—	13,139	14,607
Consumer						
Motor Vehicle	331	—	602	—	436,639	437,572
All Other Consumer	175	—	23	—	30,914	31,112
TOTAL	$ 1,786,707	$ 59,672	$ 64,331	$ —	$ 841,498	$ 2,752,208

	December 31, 2019					
(Dollar amounts in thousands)	Pass	Special Mention	Substandard	Doubtful	Not Rated	Total
Commercial						
Commercial & Industrial	$ 549,341	$ 19,253	$ 26,349	$ 5	$ 2,761	$ 597,709
Farmland	119,858	8,673	8,644	—	100	137,275
Non Farm, Non Residential	381,404	4,424	12,269	—	3,678	401,775
Agriculture	127,144	4,507	27,490	—	985	160,126
All Other Commercial	283,266	3,141	1,120	—	35	287,562
Residential						
First Liens	174,338	926	4,382	—	204,266	383,912
Home Equity	18,417	—	134	11	52,280	70,842
Junior Liens	2,839	64	178	76	51,817	54,974
Multifamily	146,497	112	1,315	—	19	147,943
All Other Residential	12,624	—	205	—	11,577	24,406
Consumer						
Motor Vehicle	2,880	—	538	—	350,780	354,198
All Other Consumer	3,155	—	38	—	28,615	31,808
TOTAL	$ 1,821,763	$ 41,100	$ 82,662	$ 92	$ 706,913	$ 2,652,530

3. Securities

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

September 30, 2020				
(Dollar amounts in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Government agencies	$ 94,924	$ 5,430	$ (4)	$ 100,350
Mortgage Backed Securities - residential	276,182	8,710	(282)	284,610
Mortgage Backed Securities - commercial	18,046	634	—	18,680
Collateralized mortgage obligations	225,964	5,821	(217)	231,568
State and municipal obligations	276,640	18,200	(86)	294,754
Municipal taxable	20,106	624	(3)	20,727
U.S. Treasury	2,500	14	—	2,514
Collateralized debt obligations	—	3,036	—	3,036
TOTAL	$ 914,362	$ 42,469	$ (592)	$ 956,239

December 31, 2019				
(Dollar amounts in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Government agencies	$ 102,490	$ 1,293	$ (150)	$ 103,633
Mortgage Backed Securities-residential	240,753	2,979	(350)	243,382
Mortgage Backed Securities-commercial	22,036	73	(5)	22,104
Collateralized mortgage obligations	280,797	1,735	(1,221)	281,311
State and municipal obligations	253,277	11,265	(108)	264,434
Municipal taxable	728	2	—	730
U.S. Treasury	7,494	10	—	7,504
Collateralized debt obligations	—	3,619	—	3,619
TOTAL	$ 907,575	$ 20,976	$ (1,834)	$ 926,717

Contractual maturities of debt securities at September 30, 2020 were as follows. Securities not due at a single maturity or with no maturity date, primarily mortgage-backed and equity securities are shown separately.

	Available-for-Sale	
(Dollar amounts in thousands)	Amortized Cost	Fair Value
Due in one year or less	$ 7,881	$ 7,943
Due after one but within five years	52,873	54,507
Due after five but within ten years	67,655	71,408
Due after ten years	265,761	287,523
	394,170	421,381
Mortgage-backed securities and collateralized mortgage obligations	520,192	534,858
TOTAL	$ 914,362	$ 956,239

There were $5 thousand and $283 thousand in gross gains and zero and $53 thousand in losses from investment sales/calls realized by the Corporation for the three and nine months ended September 30, 2020. For the three and nine months ended September 30, 2019 there were $6 thousand and $24 thousand in gross gains and zero and $6 thousand in losses on sales/calls 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, 2020 and December 31, 2019.

	September 30, 2020					
	Less Than 12 Months		More Than 12 Months		Total	
(Dollar amounts in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government agencies	$ 5,017	$ (2)	$ 998	$ (2)	$ 6,015	$ (4)
Mortgage Backed Securities - Residential	$ 37,117	$ (282)	$ —	$ —	$ 37,117	$ (282)
Collateralized mortgage obligations	5,702	(124)	3,716	(93)	9,418	(217)
State and municipal obligations	8,059	(64)	452	(22)	8,511	(86)
Municipal taxable	747	(3)	—	—	747	(3)
Total temporarily impaired securities	$ 56,642	$ (475)	$ 5,166	$ (117)	$ 61,808	$ (592)

	December 31, 2019					
	Less Than 12 Months		More Than 12 Months		Total	
(Dollar amounts in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
US Government agencies	$ 29,183	$ (150)	$ —	$ —	$ 29,183	$ (150)
Mortgage Backed Securities - Residential	$ 55,665	$ (243)	$ 18,724	$ (107)	$ 74,389	$ (350)
Mortgage Backed Securities - Commercial	4,391	(5)	—	—	4,391	(5)
Collateralized mortgage obligations	33,398	(314)	61,781	(907)	95,179	(1,221)
State and municipal obligations	8,996	(61)	461	(47)	9,457	(108)
Total temporarily impaired securities	$ 131,633	$ (773)	$ 80,966	$ (1,061)	$ 212,599	$ (1,834)

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

When OTTI occurs under either model, the amount of the OTTI recognized in earnings depends on whether an entity intends to sell the security or it is more likely than not it will be required to sell the security before recovery of its amortized cost basis, less any current-period credit loss. If an entity intends to sell or it is more likely than not it will be required to sell the security 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 $592 thousand as of September 30, 2020 and $1.8 million as of December 31, 2019. 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 2020 or 2019.

The table below presents a rollforward of the credit losses recognized in earnings for the three and nine month periods ended September 30, 2020 and 2019:

(Dollar amounts in thousands)	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Beginning balance	$ 2,974	$ 2,974	$ 2,974	$ 2,974
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	—	—	—	—
Ending balance	$ 2,974	$ 2,974	$ 2,974	$ 2,974

4. Fair Value

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

Level 1: Quoted prices (unadjusted) of identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
Level 2: Significant other observable inputs other than Level I prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

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

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

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

(Dollar amounts in thousands)	September 30, 2020 Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Level 1	Level 2	Level 3	Total
U.S. Government agencies	$ —	$ 100,350	$ —	$ 100,350
Mortgage Backed Securities-residential	—	284,610	—	284,610
Mortgage Backed Securities-commercial	—	18,680	—	18,680
Collateralized mortgage obligations	—	231,568	—	231,568
State and municipal	—	292,519	2,235	294,754
Municipal taxable	—	20,727	—	20,727
U.S. Treasury	—	2,514	—	2,514
Collateralized debt obligations	—	—	3,036	3,036
TOTAL	$ —	$ 950,968	$ 5,271	$ 956,239
Derivative Assets		2,723		
Derivative Liabilities		(2,723)		

(Dollar amounts in thousands)	December 31, 2019 Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Level 1	Level 2	Level 3	Total
U.S. Government agencies	$ —	$ 103,633	$ —	$ 103,633
Mortgage Backed Securities-residential	—	243,382	—	243,382
Mortgage Backed Securities-commercial	—	22,104	—	22,104
Collateralized mortgage obligations	—	281,311	—	281,311
State and municipal	—	261,869	2,565	264,434
Municipal taxable	—	730	—	730
U.S. Treasury	—	7,504	—	7,504
Collateralized debt obligations	—	—	3,619	3,619
TOTAL	$ —	$ 920,533	$ 6,184	$ 926,717
Derivative Assets		828		
Derivative Liabilities		(828)		

There were no transfers between Level 1 and Level 2 during 2020 and 2019.

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, 2020 and the year ended December 31, 2019.

(Dollar amounts in thousands)	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Three Months Ended September 30, 2020 State and municipal obligations	Collateralized debt obligations	Total
Beginning balance, July1	$ 2,235	$ 2,945	$ 5,180
Total realized/unrealized gains or losses			
Included in earnings	—	—	—
Included in other comprehensive income	—	91	91
Transfers	—	—	—
Settlements	—	—	—
Ending balance, September 30	$ 2,235	$ 3,036	$ 5,271

(Dollar amounts in thousands)	Nine Months Ended September 30, 2020 State and municipal obligations	Collateralized debt obligations	Total
Beginning balance, January 1	$ 2,565	$ 3,619	$ 6,184
Total realized/unrealized gains or losses			
Included in earnings	—	—	—
Included in other comprehensive income	—	(583)	(583)
Transfers	—	—	—
Settlements	(330)	—	(330)
Ending balance, September 30	$ 2,235	$ 3,036	$ 5,271

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		
	Year Ended December 31, 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	—	498	498
Purchases	—	—	—
Settlements	(570)	(137)	(707)
Ending balance, December 31	$ 2,565	$ 3,619	$ 6,184

The following table presents quantitative information about recurring and non-recurring Level 3 fair value measurements at September 30, 2020.

(Dollar amounts in thousands)	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range
State and municipal obligations	$ 2,235	Discounted cash flow	Discount rate Probability of default	3.09%-4.44% 0%
Other real estate	$ 3,465	Sales comparison/income approach	Discount rate for age of appraisal and market conditions	5.00%-20.00%
Impaired Loans	$ 4,749	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, 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	$ 3,625	Sales comparison/income approach	Discount rate for age of appraisal and market conditions	5.00%-20.00%
Impaired Loans	100	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 $4.7 million, after a valuation allowance of $1.7 million at September 30, 2020 and at a fair value of $100 thousand, net of a valuation allowance of $48 thousand at December 31, 2019. The impact to the provision for loan losses for the three and nine months ended September 30, 2020 and for the twelve months ended December 31, 2019 was a $1.4 million increase, a $1.6 million increase, and a $689 thousand decrease, respectively. Other real estate owned is valued at Level 3. Other real estate owned at September 30, 2020 with a value of $3.5 million was reduced zero for fair value adjustment. At September 30, 2020 other real estate owned was comprised of $3.4 million from commercial loans and $119 thousand from residential loans. Other real estate owned at December 31, 2019 with a value of $3.6 million was reduced $64 thousand for fair value adjustment. At December 31, 2019 other real estate owned was comprised of $3.5 million from commercial loans and $142 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.

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, 2020 and December 31, 2019, which are all considered Level 3.

	September 30, 2020		
(Dollar amounts in thousands)	Carrying Value	Allowance for Loan Losses Allocated	Fair Value
Commercial			
Commercial & Industrial	$ 3,749	$ 1,054	$ 2,695
Farmland	—	—	—
Non Farm, Non Residential	171	—	171
Agriculture	380	380	—
All Other Commercial	754	251	503
Residential			
First Liens	—	—	—
Home Equity	—	—	—
Junior Liens	—	—	—
Multifamily	1,380	—	1,380
All Other Residential	—	—	—
Consumer			
Motor Vehicle	—	—	—
All Other Consumer	—	—	—
TOTAL	$ 6,434	$ 1,685	$ 4,749

(Dollar amounts in thousands)	December 31, 2019 Carrying Value	Allowance for Loan Losses Allocated	Fair Value
Commercial			
Commercial & Industrial	$ 148	$ 48	$ 100
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	$ 148	$ 48	$ 100

The carrying amounts and estimated fair value of financial instruments at September 30, 2020 and December 31, 2019, 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.

	September 30, 2020				
	Carrying	Fair Value			
(Dollar amounts in thousands)	Value	Level 1	Level 2	Level 3	Total
Cash and due from banks	$ 388,440	$ 25,428	$ 363,012	$ —	$ 388,440
Federal funds sold	—	—	—	—	—
Securities available-for-sale	956,239	—	950,968	5,271	956,239
Restricted stock	15,012	n/a	n/a	n/a	n/a
Loans, net	2,726,533	—	—	2,787,631	2,787,631
Accrued interest receivable	18,482	—	5,007	13,475	18,482
Deposits	(3,604,353)	—	(3,615,014)	—	(3,615,014)
Short-term borrowings	(95,249)	—	(95,249)	—	(95,249)
Other borrowings	(10,845)	—	(11,237)	—	(11,237)
Accrued interest payable	(1,107)	—	(1,107)	—	(1,107)

	December 31, 2019				
	Carrying	Fair Value			
(Dollar amounts in thousands)	Value	Level 1	Level 2	Level 3	Total
Cash and due from banks	$ 127,426	$ 26,275	$ 101,151	$ —	$ 127,426
Federal funds sold	7,500	—	7,500	—	7,500
Securities available-for-sale	926,717	—	920,533	6,184	926,717
Restricted stock	15,394	n/a	n/a	n/a	n/a
Loans, net	2,636,447	—	—	2,648,692	2,648,692
Accrued interest receivable	18,523	—	3,583	14,940	18,523
Deposits	(3,275,357)	—	(3,278,099)	—	(3,278,099)
Short-term borrowings	(80,119)	—	(80,119)	—	(80,119)
Other borrowings	(30,973)	—	(31,143)	—	(31,143)
Accrued interest payable	(1,739)	—	(1,739)	—	(1,739)

5. Short-Term Borrowings

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

(Dollar amounts in thousands)	September 30, 2020	December 31, 2019
Federal Funds Purchased	$ 1,325	$ 900
Repurchase Agreements	93,924	79,219
	$ 95,249	$ 80,119

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.

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

	September 30, 2020				
Repurchase Agreements	Remaining Contractual Maturity of the Agreements				
(Dollar amounts in thousands)	Overnight and continuous	Up to 30 days	30 - 90 days	Greater than 90 days	Total
Mortgage Backed Securities - Residential and Collateralized Mortgage Obligations	$ 87,000	$ 60	$ —	$ 6,864	$ 93,924

	December 31, 2019				
Repurchase Agreements	Remaining Contractual Maturity of the Agreements				
(Dollar amounts in thousands)	Overnight and continuous	Up to 30 days	30 - 90 days	Greater than 90 days	Total
Mortgage Backed Securities - Residential and Collateralized Mortgage Obligations	$ 69,709	$ 1,927	$ 6,552	$ 1,031	$ 79,219

6. Components of Net Periodic Benefit Cost

(Dollar amounts in thousands)	Three Months Ended September 30, Pension Benefits 2020	Three Months Ended September 30, Pension Benefits 2019	Three Months Ended September 30, Post-Retirement Health Benefits 2020	Three Months Ended September 30, Post-Retirement Health Benefits 2019	Nine Months Ended September 30, Pension Benefits 2020	Nine Months Ended September 30, Pension Benefits 2019	Nine Months Ended September 30, Post-Retirement Health Benefits 2020	Nine Months Ended September 30, Post-Retirement Health Benefits 2019
Service cost	$ 325	$ 304	$ 10	$ 9	$ 975	$ 913	$ 29	$ 26
Interest cost	779	866	32	36	2,337	2,599	94	109
Expected return on plan assets	(1,050)	(896)	—	—	(3,149)	(2,689)	—	—
Net amortization of prior service cost	1	—	—	—	1	1	—	—
Net amortization of net (gain) loss	492	389	—	(4)	1,476	1,168	—	(12)
Net Periodic Benefit Cost	$ 547	$ 663	$ 42	$ 41	$ 1,640	$ 1,992	$ 123	$ 123

Employer Contributions

First Financial Corporation previously disclosed in its financial statements for the year ended December 31, 2019 that it expected to contribute $3.7 million and $736 thousand respectively to its Pension Plan and ESOP and $251 thousand to the Post Retirement Health Benefits Plan in 2020. Contributions of $3.0 million have been made to the Pension Plan thus far in 2020. Contributions of $176 thousand have been made through the first nine months of 2020 for the Post Retirement Health Benefits plan. No contributions have been made in 2020 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 2020 and 2019 there has been $1.4 million and $1.1 million of expense accrued for potential contributions to these alternative retirement benefit options.

7. New accounting standards

Accounting Pronouncements Adopted:
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 adopted ASU 2017-04 on January 1, 2020. There was not a significant impact to 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. The Corporation adopted ASU 2018-13 on January 1, 2020. As ASU No. 2018-13 only revises disclosure requirements, it did not have a material impact on the Corporation's financial statements.

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. The Corporation adopted ASU 2018-15 on January 1, 2020. ASU 2018-15 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.

The Corporation formed a cross-functional internal management committee and engaged a third party vendor to assist with the transition to the guidance set forth in this update. The new allowance model implemented by the Corporation estimates credit losses over the expected life of the portfolio and includes a qualitative framework to account for the drivers of losses that are not captured by the quantitative model. The results continue to be utilized to refine our models and estimation techniques. Documentation of new methodologies and internal controls that will be implemented as part of CECL as well as model validation is also being finalized. While the committee continues to analyze and modify calculations, the Corporation currently expects the adoption of ASU 2016-13 will result in an increase in allowance for loan losses amount at January 1, 2020 in the range of $15 million to $25 million. The allowance for credit losses also increased due to the requirement to record an allowance on acquired loan portfolios, previously recorded at fair value. Once finalized, the cumulative effect adjustment, as a result of the adoption of this guidance, was originally to be recorded on January 1, 2020, net of tax, as an adjustment to retained earnings. This estimate is subject to change as key assumptions are refined and model validations are finalized.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was signed by the President of the United States that included an option for entities to delay the implementation of ASU 2016-13 until the earlier of the termination date of the national emergency declaration by the President or December 31, 2020. Due to the uncertainty on the economy and unemployment from COVID-19, the Corporation has determined to delay its implementation of ASU 2016-13 and has calculated and recorded its provision for loan losses under the incurred loss model that existed prior to ASU 2016-13.

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.

In December 2019, the FASB issued ASU 2019-12 “Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes.” These amendments remove specific exceptions to the general principles in Topic 740 in GAAP. It eliminates the need for an organization to analyze whether the following apply in a given period: exception to the incremental approach for intraperiod tax allocation; exceptions to accounting for basis differences where there are ownership changes in foreign investments; and exception in interim period income tax accounting for year-to-date losses that exceed anticipated losses. It also improves financial statement preparers’ application of income tax-related guidance and simplifies GAAP for: franchise taxes that are partially based on income; transactions with a government that result in a step up in the tax basis of goodwill; separate financial statements of legal entities that are not subject to tax; and enacts changes in tax laws in interim periods. The guidance is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. Early adoption is permitted. The Corporation is assessing ASU 2019-12 and its impact on its accounting and disclosure.

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, 2020 and 2019. Items outside the scope of ASC 606 are noted as such.

(Dollar amounts in thousands)	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Non-interest income				
Service charges on deposits and debit card fee income	$ 5,670	$ 5,633	$ 16,196	$ 15,623
Asset management fees	1,056	1,257	3,448	3,657
Interchange income	84	105	250	264
Net gains on sales of loans [(a)]	2,910	865	4,813	1,781
Loan servicing fees [(a)]	539	541	1,191	1,238
Net gains/(losses) on sales of securities [(a)]	5	6	230	18
Other service charges and fees [(a)]	449	531	1,339	1,486
Other [(b)]	1,026	808	2,143	3,058
Total non-interest income	$ 11,739	$ 9,746	$ 29,610	$ 27,125

[(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, 2020 and September 30, 2019, totaling $5 thousand and $2 thousand, respectively, and for the nine months ended for the same periods, totaling $(3) thousand and $(38) thousand, 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 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

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 $3.3 million are included in the Corporation's income statement for the year ended December 31, 2019.

Goodwill of $44.2 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)	As Initially Reported	Measurement Period Adjustments	As Adjusted
Consideration			
Cash consideration	$ 67,348	$ —	$ 67,348
Stock consideration	61,878	—	61,878
Fair value of total consideration transferred	$ 129,226	$ —	$ 129,226
Assets acquired			
Cash	$ 34,518		$ 34,518
Investment securities available-for-sale	174,851		174,851
Bank owned life insurance	10,693		10,693
Federal Home Loan Bank stock	4,428		4,428
Loans	657,179	1,719	658,898
Premises and equipment	25,316	(6,494)	18,822
Core deposit intangibles	10,369		10,369
Other real estate owned	3,364		3,364
Other assets	6,596	1,600	8,196
Total assets acquired	927,314	(3,175)	924,139
Liabilities assumed			
Deposits	735,526		735,526
FHLB advances	20,775		20,775
Other borrowings	75,783		75,783
Other liabilities	7,066		7,066
Total liabilities assumed	839,150	—	839,150
Net identifiable assets	88,164	(3,175)	84,989
Goodwill	$ 41,062	$ 3,175	$ 44,237

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 2018. 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.

	Year ended December 31,	
(Dollar amounts in thousands, except per share data)	2019	2018
Net interest income	$ 147,581	$ 145,136
Net income	$ 51,088	$ 52,252
Basic and diluted earnings per share	$ 3.97	$ 4.26

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 year ended December 31, 2019, for which it was probable at acquisition that all contractually required payments would not be collected are as follows:

(Dollar amount in thousands)	**As Initially Reported**	**Measurement Period Adjustments**	**As Adjusted**
Contractually required payments receivable of loans purchased during the year:			
Commercial	$ 16,530	$ (3,523)	$ 13,007
Consumer	391	(296)	95
	$ 16,921	$ (3,819)	$ 13,102
Fair value of acquired loans at acquisition	$ 8,870	$ (1,857)	$ 7,013

The carrying amount of loans accounted for in accordance with FASB ASC 310-30 at September 30, 2020 and 2019 are shown in the following tables:

			2020
(Dollar amounts in thousands)	**Commercial**	**Consumer**	**Total**
Beginning balance, July 1,	$ 4,836	$ —	$ 4,836
Discount accretion	—	—	—
Disposals	(469)	—	(469)
ASC 310-30 Loans, September 30,	$ 4,367	$ —	$ 4,367

			2020
(Dollar amounts in thousands)	**Commercial**	**Consumer**	**Total**
Beginning balance, January 1,	$ 7,269	$ —	$ 7,269
Discount accretion	—	—	—
Disposals	(2,902)	—	(2,902)
ASC 310-30 Loans, September 30,	$ 4,367	$ —	$ 4,367

(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

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, 2020 and 2019.

	2020		
(Dollar amounts in thousands)	Unrealized gains and (Losses) on available-for-sale Securities	Retirement plans	Total
Beginning balance, July 1,	$ 31,121	$ (21,606)	$ 9,515
Change in other comprehensive income (loss) before reclassification	2,227	—	2,227
Amounts reclassified from accumulated other comprehensive income	(4)	383	379
Net current period other comprehensive income (loss)	2,223	383	2,606
Ending balance, September 30,	$ 33,344	$ (21,223)	$ 12,121

	2020		
(Dollar amounts in thousands)	Unrealized gains and (Losses) on available-for-sale Securities	Retirement plans	Total
Beginning balance, January 1,	$ 14,893	$ (22,394)	$ (7,501)
Change in other comprehensive income (loss) before reclassification	18,624	—	18,624
Amounts reclassified from accumulated other comprehensive income	(173)	1,171	998
Net current period other comprehensive loss	—	—	—
Net current period other comprehensive income (loss)	18,451	1,171	19,622
Ending balance, September 30,	$ 33,344	$ (21,223)	$ 12,121

(Dollar amounts in thousands)	Unrealized gains and (Losses) on available-for-sale Securities	2019 Retirement plans	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)	Unrealized gains and (Losses) on available-for-sale Securities	2019 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
ASU 2018-02 adjustment	—	—	—
Ending balance, September 30,	$ 16,584	$ (16,439)	$ 145

(Dollar amounts in thousands)	Balance at 7/1/2020	Current Period Change	Balance at 9/30/2020
Unrealized gains (losses) on securities available-for-sale without other than temporary impairment	$ 28,913	$ 2,154	$ 31,067
Unrealized gains (losses) on securities available-for-sale with other than temporary impairment	2,208	69	2,277
Total unrealized loss on securities available-for-sale	$ 31,121	$ 2,223	$ 33,344
Unrealized gain (loss) on retirement plans	(21,606)	383	(21,223)
TOTAL	$ 9,515	$ 2,606	$ 12,121

(Dollar amounts in thousands)	Balance at 1/1/2020	Current Period Change	Balance at 9/30/2020
Unrealized gains (losses) on securities available-for-sale without other than temporary impairment	$ 12,178	$ 18,889	$ 31,067
Unrealized gains (losses) on securities available-for-sale with other than temporary impairment	2,715	(438)	2,277
Total unrealized gain (loss) on securities available-for-sale	$ 14,893	$ 18,451	$ 33,344
Unrealized loss on retirement plans	(22,394)	1,171	(21,223)
TOTAL	$ (7,501)	$ 19,622	$ 12,121

(Dollar amounts in thousands)	Balance at 7/1/2019	Current Period Change	Balance at 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 gain (loss) on securities available-for-sale	$ 12,460	$ 4,124	$ 16,584
Unrealized loss on retirement plans	(16,742)	303	(16,439)
TOTAL	$ (4,282)	$ 4,427	$ 145

(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 income (loss) on securities available-for-sale	$ (6,105)	$ 22,689	$ 16,584
Unrealized gain (loss) on retirement plans	(17,349)	910	(16,439)
TOTAL	$ (23,454)	$ 23,599	$ 145

Details about accumulated other comprehensive income components	Three Months Ended September 30, 2020 Amount reclassified from accumulated other comprehensive income (in thousands)	Affected line item in the statement where net income is presented
Unrealized gains and losses	$ 5	Net securities gains (losses)
on available-for-sale	(1)	Income tax expense
securities	$ 4	Net of tax
Amortization of	$ (492)	(a) Salary and benefits
retirement plan items	109	Income tax expense
	$ (383)	Net of tax
Total reclassifications for the period	$ (379)	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, 2020 Amount reclassified from accumulated other comprehensive income		Affected line item in the statement where net income is presented
	(in thousands)		
Unrealized gains and losses	$	230	Net securities gains (losses)
on available-for-sale		(57)	Income tax expense
securities	$	173	Net of tax
Amortization of	$	(1,476)	(a) Salary and benefits
retirement plan items		305	Income tax expense
	$	(1,171)	Net of tax
Total reclassifications for the period	$	(998)	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	Three Months Ended September 30, 2019 Amount reclassified from accumulated other comprehensive income		Affected line item in the statement where net income is presented
	(in thousands)		
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 Amount reclassified from accumulated other comprehensive income		Affected line item in the statement where net income is presented
	(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

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

11. Leases

The Corporation leases certain branches under operating leases. At September 30, 2020, the Corporation had lease liabilities totaling $5,976,000 and right-of-use assets totaling $5,955,000 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, 2020, the weighted average remaining lease term for operating leases was 10.7 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, 2020
Operating lease cost	$ 710
Short-term lease cost	89
Variable lease cost	22
Total lease cost	$ 821
Other information:	
Cash paid for amounts included in the measurement of operating lease liabilities	641
Right-of-use assets obtained in exchange for new operating lease liabilities	7,111

Future minimum payments for operating leases with initial or remaining terms of one year or more as of September 30, 2020 were as follows:

(Dollar amounts in thousands)	September 30, 2020
Twelve Months Ended September 30,	
2021	$ 859
2022	863
2023	836
2024	753
2025	686
Thereafter	2,978
Total Future Minimum Lease Payments	6,975
Amounts Representing Interest	(833)
Present Value of Net Future Minimum Lease Payments	$ 6,142

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 2019 in the 10-K filed for the fiscal year ended December 31, 2019.

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. Risks related to COVID-19 include the disruption of local, regional, national and global economic activity caused by infectious disease outbreaks, including the recent outbreak of coronavirus, or COVID-19, and the significant impact that such outbreak has had and may have on our growth, operations, earnings and asset quality; changes in asset quality, including increases in default rates on loans and higher levels of nonperforming loans and loan charge-offs generally, and specifically resulting from the economic dislocation caused by the COVID-19 pandemic; inaccuracy of the assumptions and estimates that the management of our Corporation makes in establishing reserves for probable loan losses and other estimates generally, and specifically as a result of the effect of the COVID-19 pandemic; and an increase in the rate of personal or commercial customers' bankruptcies generally, and specifically as a result of the COVID-19 pandemic. 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, 2019, 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 2019 Form 10-K.

Summary of Operating Results

Net income for the three months ended September 30, 2020 was $14.0 million, compared to $12.3 million for the same period in 2019. Basic earnings per share increased to $1.02 for the third quarter of 2020 compared to $0.93 for the same period in 2019. Return on Assets and Return on Equity were 1.28% and 9.29% respectively, for the three months ended September 30, 2020 compared to 1.33% and 9.97% for the three months ended September 30, 2019. Net income for the nine months ended September 30, 2020 was $38.1 million, compared to $34.5 million for the same period in 2019. Basic earnings per share increased to $2.78 for the first nine months of 2020 compared to $2.74 for the same period in 2019. Return on Assets and Return on Equity were 1.20% and 8.62% respectively, for the nine months ended September 30, 2020, compared to 1.42% and 9.74% for the nine months ended September 30, 2019. 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 $657 million in loans. The acquisition also included $736 millions for deposits.

In March 2020, the outbreak of the Coronavirus Disease 2019 (COVID-19) was recognized as a pandemic by the World Health Organization. The spread of COVID-19 has caused economic and social disruption resulting in unprecedented uncertainty, volatility and disruption in financial markets, and has placed significant health, economic and other major pressures throughout the communities we serve, the United States and globally. While some industries have been impacted more severely than others, all businesses have been impacted to some degree. This disruption has resulted in the shuttering of businesses across the country, significant job loss, material decreases in oil and gas prices and in business valuations, changes in consumer behavior related to pandemic fears, and aggressive measures by the federal government.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was signed into law. It contains substantial tax and spending provisions intended to address the impact of the COVID-19 pandemic. The goal of the CARES Act is to prevent a severe economic downturn through various measures, including direct financial aid to American families and economic stimulus to significantly impacted industry sectors. The CARES Act also includes a range of other provisions designed to support the U.S. economy and mitigate the impact of COVID-19 on financial institutions and their customers, including through the authorization of various programs and measures that the U.S. Department of the Treasury, the Small Business Administration, the Federal Reserve Board, and other federal banking agencies may or are required to implement. Further, in response to the COVID-19 outbreak, the Federal Reserve Board has implemented or announced a number of facilities to provide emergency liquidity to various segments of the U.S. economy and financial market.

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 $2.5 million in the three months ended September 30, 2020 to $36.5 million from $34.0 million in the same period in 2019. The net interest margin for the three months ended September 30, 2020 is 3.99% compared to 4.00% for the same period in 2019, a 0.35% decrease. Net interest income increased $15.6 million in the nine months ended September 30, 2020 to $108.8 million from $93.2 million in the same period in 2019. The net interest margin for the nine months ended September 30, 2020 is 4.03% compared to 4.21% for the same period in 2019. The Corporation deferred fees through the Paycheck Protection Program (“PPP”) totaling $6.2 million. Interest income increased by $733 thousand in the three months ended September 30, 2020 as a result of the accretion of PPP fees.

Non-Interest Income

Non-interest income for the three months ended September 30, 2020 was $11.7 million compared to $9.7 million for the same period of 2019. The increase included an increase in gains on mortgages sold in the three months ended September 30, 2020. Non-interest income for the nine months ended September 30, 2020 was $29.6 million compared to $27.1 million for the same period in 2019.

Non-Interest Expenses

The Corporation’s non-interest expense for the quarter ended September 30, 2020 was $27.1 million compared to $27.4 million for the same period in 2019. The Corporation's non-interest expense for the nine months ended September 30, 2020 increased $7.0 million to $81.6 million compared to the same period in 2019.

Allowance for Loan Losses

The Corporation’s provision for loan losses increased to $4.4 million for the third quarter of 2020 as compared to $1.5 million for the same period in 2019. The Corporation increased the allowance for loan losses by $1.0 million in the third quarter of 2020, increasing the year-to-date total to $3.0 million, directly related to the estimate of losses resulting from the COVID-19 pandemic. Also, as provided by the Coronavirus Aid Relief and Economic Security Act, the Corporation elected to delay the implementation of the Current Expected Credit Loss accounting standard. Net charge offs for the third quarter of 2020 were $750 thousand compared to $2.0 million for the same period of 2019. The provision for loan losses increased $6.9 million to $10.1 million for the nine months ended September 30, 2020 compared to $3.2 million for the same period in 2019. Net charge offs for the first nine months of 2020 decreased $774 thousand to $3.1 million compared to the same period in 2019. 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 with the adjustments made for the estimates relating to the COVID-19 pandemic.

Income Tax Expense

The Corporation's effective income tax rate for the first nine months of 2020 was 18.47% compared to 18.82% for the same period in 2019.

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 increased to $23.7 million at September 30, 2020 compared to $15.3 million at December 31, 2019. Nonperforming loans increased 64.4% compared to $14.4 million as of September 30, 2019. A summary of non-performing loans at September 30, 2020 and December 31, 2019 follows:

	(000's)	
	September 30, 2020	December 31, 2019
Non-accrual loans	$ 16,628	$ 9,535
Accruing restructured loans	2,935	3,318
Nonaccrual restructured loans	1,162	876
Accruing loans past due over 90 days	2,948	1,610
	$ 23,673	$ 15,339
Ratio of the allowance for loan losses		
as a percentage of non-performing loans	113.9 %	130.0 %

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

	(000's)	
	September 30, 2020	December 31, 2019
Non-accrual loans		
Commercial loans	$ 11,054	$ 5,630
Residential loans	4,435	3,315
Consumer loans	1,139	590
	$ 16,628	$ 9,535
Past due 90 days or more		
Commercial loans	$ 168	$ 5
Residential loans	2,569	1,383
Consumer loans	211	222
	$ 2,948	$ 1,610

The CARES Act includes a provision that permits a financial institution to elect to suspend temporarily troubled debt restructuring accounting under ASC Subtopic 310-40 in certain circumstances ("section 4013"). To be eligible under section 4013, a loan modification must be (1) related to COVID-19; (2) executed on a loan that was not more than 30 days past due as of December 31, 2019; and (3) executed between March 1, 2020, and the earlier of (A) 60 days after the date of termination of the National Emergency or (B) December 31, 2020. In response to this section of the CARES Act, the federal banking agencies issued a revised interagency statement on April 7, 2020 that, in consultation with the Financial Accounting Standards Board, confirmed that for loans not subject to section 4013, short-term modifications made on a good faith basis in response to COVID-19 to borrowers who were current prior to any relief are not troubled debt restructurings under ASC Subtopic 310-40. This includes short-term (e.g., up to six months) modifications such as payment deferrals, fee waivers, extensions of repayment terms, or delays in payment that are insignificant. Borrowers considered current are those that are less than 30 days past due on their contractual payments at the time a modification program is implemented. As of September 30, 2020, 1,431 loans totaling $328 million were modified, related to COVID-19, that were not considered troubled debt restructurings. 1,139 loans totaling $208 million have resumed normal scheduled payments. 292 remaining loans are still under a debt relief plan, which include 42 commercial loans totaling $80 million that have been provided additional payment relief since the initial payment relief plan. 250 loans totaling $40 million are under the original payment relief plan. On these modifications, we have granted payment deferrals, generally for up to three months.

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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, 2020. 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 4.77% over the next 12 months and increase 9.70% over the following 12 months. Given a 100 basis point decrease in rates, net interest income would decrease 4.23% over the next 12 months and decrease 6.81% over the following 12 months. These estimates assume all rate changes occur overnight and management takes no action as a result of this change.

Basis Point	Percentage Change in Net Interest Income		
Interest Rate Change	12 months	24 months	36 months
Down 100	-4.23	-6.81	-8.30
Up 100	4.77	9.70	13.45
Up 200	5.62	14.72	22.27

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

Liquidity Risk

Liquidity represents an institution’s ability to provide funds to satisfy demands from depositors, borrowers, and other creditors by either converting assets into cash or accessing new or existing sources of incremental funds. Generally the Corporation relies on deposits, loan repayments and repayments of investment securities as its primary sources of funds. The Corporation has $8.0 million of investments that mature throughout the next 12 months. The Corporation also anticipates $214.1 million of principal payments from mortgage-backed securities. Given the current rate environment, the Corporation anticipates $26.1 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 2020 to the same period in 2019, loans, net of deferred loan costs, have increased $85 million to $2.8 billion. Deposits increased 11.9% to $3.6 billion at September 30, 2020 compared to September 30, 2019.

Shareholders' equity increased 9.1% or $50.5 million. This financial performance increased book value per share 9.07% to $44.27 at September 30, 2020 from $40.59 at September 30, 2019. 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 $927 million, including $675 million in loans. The acquisition also included $736 million in deposits.

As a Small Business Administration lender, we were well positioned to assist business customers in accessing funds available through the Paycheck Protection Program ("PPP") implemented in April. Through September 30, 2020, we processed approximately $170 million of approved PPP loans.

Goodwill

Goodwill is reviewed for impairment annually. If there are changes or events that indicate the asset may be impaired, goodwill is reviewed for impairment on an interim basis. The pandemic created an event that requires that the Corporation review goodwill for impairment. The market value of the Corporation's stock experienced declines similar to other financial institutions. We have not seen a significant impact on loans, deposits, or operating performance as a result of the pandemic. Deposits and loans have both increased. Loan modifications to date are at similar levels experienced by other financial institutions. While the Corporation does anticipate higher losses to occur as a result of the pandemic, we believe those to be in line with past economic cycles. Based on these factors, we have determined that goodwill was not impaired as of September 30, 2020.

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 fully phased in capital conservation buffer set 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%. Currently the Corporation exceeds all of these minimums.

	September 30, 2020	December 31, 2019	To Be Well Capitalized
Common equity tier 1 capital			
Corporation	15.70 %	15.51 %	N/A
First Financial Bank	15.23 %	15.40 %	6.50 %
Total risk-based capital			
Corporation	16.54 %	16.16 %	N/A
First Financial Bank	15.89 %	15.91 %	10.00 %
Tier I risk-based capital			
Corporation	15.70 %	15.51 %	N/A
First Financial Bank	15.23 %	15.40 %	8.00 %
Tier I leverage capital			
Corporation	11.81 %	12.04 %	N/A
First Financial Bank	11.35 %	11.93 %	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, 2020, 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, 2020 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, 2020 that has materially affected, or is reasonably likely to materially affect, the Corporation's internal control over financial reporting.

PART II – Other Information

ITEM 1. Legal Proceedings.

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

ITEM 1A. Risk Factors.

There have been no material changes in the risk factors from those disclosed in the Corporation's 2019 Form 10-K filed for December 31, 2019.

In addition to the risk factors disclosed in these reports and registration statements, you should note the following additional risk factor:

The recent global coronavirus pandemic is likely to impact the financial condition and earnings prospects of the Corporation.

In December 2019, a novel strain of coronavirus, COVID-19, was reported in Wuhan, China. The coronavirus has since spread rapidly to many other countries, including the United States, and the World Health Organization formally declared the coronavirus outbreak a pandemic in March 2020. In response, federal and many state governments have implemented "stay at home" orders restricting the operations of businesses and the activities of individuals. These orders and other effects of the coronavirus pandemic have had significant and widespread effects on the macroeconomic environment, leading to lower interest rates, depressed market valuations, heightened unemployment, heightened volatility in the financial, commodities and other markets, and significant disruption in banking and other financial activity in the areas in which the Corporation operates. The pandemic has also had a significant economic impact on a broad range of industries in which the customers of the Corporation operate. If the effects of the outbreak are prolonged or result in a lengthy recession, the risk factors set forth in the Corporation's Form 10-K could be exacerbated.

The coronavirus pandemic has created heightened credit risk. The financial performance of the Corporation is dependent upon the ability of borrowers to repay their loans and the value of the collateral supporting loans. The outbreak has caused and is likely to cause significant disruption in the business of our customers. Continued unfavorable market conditions and uncertainty due to the coronavirus pandemic may result in a deterioration in the credit quality of borrowers, an increase in the number of loan delinquencies, defaults and charge-offs, additional provisions for loan losses, adverse asset values of the collateral securing loans and an overall material adverse effect on the quality of the loan portfolio of the Corporation. Various state governments and federal agencies are requiring lenders to provide forbearance and other relief to borrowers. These regulatory programs and governmental policy, including the CARES Act Paycheck Protection Program (PPP) in which the Corporation is participating, may impact the Corporation's ability to resolve credit delinquencies as well as create heightened litigation risk and risk of holding PPP loans at unfavorable interest rates.

In addition, following the coronavirus outbreak, market interest rates have declined significantly to historic lows. The reductions in interest rates, and continued fluctuations in the interest rate environment as a result of changes in monetary policies of the Federal Reserve Board, including in connection with efforts to address the economic fallout from the coronavirus outbreak, could have significant adverse effects on the yields received by the Corporation on its earning assets and otherwise compress the Corporation's net interest margin which is an important component of the Corporation's earnings. Continued volatility in interest rates could have a significant adverse effect on the Corporation's earnings, financial condition and results of operations.

The spread of the coronavirus has caused the Corporation to change its business operations, including adopting a "drive thru banking" model at branch facilities and implementation of a work from home model for non-branch personnel. These changes may have detrimental impacts on the Corporation's business due to reduced effectiveness of operations, unavailability of personnel, and increased cybersecurity risks related to the use of remote technology. The change in business operations and continued market uncertainty could also have a detrimental effect on the Corporation's relationship with its customers as well as reduce demand for loans and other products and services offered by the Corporation upon which it relies to drive growth.

The extent to which the coronavirus pandemic impacts our business will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus pandemic and the actions required to contain and treat it, reactions by companies, clients, investors, governmental entities and financial, commodities and other markets to such actions, and the effect of the pandemic on short- and long-term general economic conditions, among other factors. There can be no assurance that efforts by the Corporation to address the adverse impacts of the coronavirus will be effective. If the significant effects of the outbreak are prolonged and if the Corporation is unable to recover from this business disruption on a timely basis, the Corporation's business, financial condition and results of operations may be significantly adversely affected.

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, 2020	—	—	N/A	N/A
August 1-31, 2020	—	—	—	—
September 1-30, 2020	—	—	—	—
Total	—	—	—	32,616

ITEM 3. Defaults upon Senior Securities.

Not applicable.

ITEM 4. Mine Safety Disclosures

Not applicable.

ITEM 5. Other Information.

Not applicable.

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.
3.3	Resolution to Amend Code of By-Laws of First Financial Corporation, incorporated by reference to Exhibit 3(iii) of the Corporation’s Form 8-K filed on April 13, 2020.
10.1*	Employment Agreement for Norman L. Lowery, dated and effective July 1, 2020, incorporated by reference to Exhibit 10.01 of the Corporation’s Form 8-K filed on September 9, 2020.
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, effective January 1, 2020, incorporated by reference to Exhibit 10.1 of the Corporation’s Form 8-K filed April 2, 2020.
10.14*	Employment Agreement for Rodger A. McHargue, effective January 1, 2020, incorporated by reference to Exhibit 10.2 of the Corporation’s Form 8-K filed April 2, 2020.
10.15*	Employment Agreement for Steven H. Holliday, effective January 1, 2020, incorporated by reference to Exhibit 10.3 of the Corporation’s Form 8-K filed April 2, 2020.
10.16*	Employment Agreement for Karen L. Stinson-Milienu, effective January 1, 2020, incorporated by reference to Exhibit 10.4 of the Corporation’s Form 8-K filed April 2, 2020.
31.1	Sarbanes-Oxley Act 302 Certification for Quarterly Report on Form 10-Q for the quarter ended September 30, 2020 by Principal Executive Officer, dated November 4, 2020.
31.2	Sarbanes-Oxley Act 302 Certification for Quarterly Report on Form 10-Q for the quarter ended September 30, 2020 by Principal Financial Officer, dated November 4, 2020.
32.1	Certification, dated November 4, 2020, 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, 2020.
101.1	Financial statements from the Quarterly Report on Form 10-Q of the Corporation for the quarter ended September 30, 2020, formatted in XBRL pursuant to Rule 405 : (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income and Comprehensive Income, (iii) Consolidated Statements of Cash Flows, (iv) Consolidated Statements of Shareholders’ Equity, and (v) Notes to Consolidated Financial Statements, as blocks of text and in detail**.

*Management contract or compensatory plan or arrangement.

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

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SIGNATURES

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

FIRST FINANCIAL CORPORATION
(Registrant)

Date: November 4, 2020	By /s/ Norman L. Lowery
	Norman L. Lowery, Chairman, President and CEO (Principal Executive Officer)
Date: November 4, 2020	By /s/ Rodger A. McHargue
	Rodger A. McHargue, Treasurer and CFO (Principal Financial Officer)

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Section 2: EX-31.1 (EX-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 l5d-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 4, 2020

By /s/ Norman L. Lowery

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

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Section 3: EX-31.2 (EX-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 l5d-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 4, 2020

By /s/ Rodger A. McHargue

Rodger A. McHargue
Treasurer and CFO
(Principal Financial Officer)

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Section 4: EX-32.1 (EX-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, 2020 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 4, 2020	By /s/ Norman L. Lowery
	Norman L. Lowery, Chairman, President & CEO (Principal Executive Officer)
November 4, 2020	By /s/ Rodger A. McHargue
	Rodger A. McHargue, Treasurer & CFO (Principal Financial Officer)

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