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 March 31, 2019

Commission File Number 0-16759

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes ☒ No ☐.

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes ☒ No ☐.

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

Large accelerated filer ☐	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 May 6, 2019, the registrant had outstanding 12,290,212 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)

	March 31, 2019	December 31, 2018
	(unaudited)	
ASSETS		
Cash and due from banks	$ 54,627	$ 74,388
Federal funds sold	2,000	—
Securities available-for-sale	786,211	784,916
Loans:		
Commercial	1,180,347	1,166,352
Residential	452,384	443,670
Consumer	348,193	341,041
	1,980,924	1,951,063
(Less) plus:		
Net deferred loan costs	3,129	2,925
Allowance for loan losses	(20,960)	(20,436)
	1,963,093	1,933,552
Restricted stock	10,412	10,390
Accrued interest receivable	14,379	13,970
Premises and equipment, net	45,977	46,554
Bank-owned life insurance	86,471	86,186
Goodwill	34,355	34,355
Other intangible assets	1,083	1,197
Other real estate owned	857	603
Other assets	26,100	22,607
TOTAL ASSETS	$ 3,025,565	$ 3,008,718
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest-bearing	$ 440,738	$ 431,923
Interest-bearing:		
Certificates of deposit exceeding the FDIC insurance limits	50,973	42,284
Other interest-bearing deposits	1,927,845	1,962,520
	2,419,556	2,436,727
Short-term borrowings	56,648	69,656
FHLB advances	25,000	—
Other liabilities	61,565	59,634
TOTAL LIABILITIES	2,562,769	2,566,017
Shareholders' equity		
Common stock, $.125 stated value per share;		
Authorized shares-40,000,000		
Issued shares-14,632,323 in 2019 and 14,612,540 in 2018		
Outstanding shares-12,290,212 in 2019 and 12,278,295 in 2018	1,825	1,824
Additional paid-in capital	76,974	76,774
Retained earnings	466,398	456,716
Accumulated other comprehensive loss	(12,927)	(23,454)
Less: Treasury shares at cost-2,342,111 in 2019 and 2,334,245 in 2018	(69,474)	(69,159)
TOTAL SHAREHOLDERS' EQUITY	462,796	442,701

TOTAL LIABILITIES AND SHAREHOLDERS’ EQUITY	$ 3,025,565	$ 3,008,718

See accompanying notes.

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

	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
	(unaudited)	(unaudited)
INTEREST INCOME:		
Loans, including related fees	$ 26,754	$ 23,623
Securities:		
Taxable	3,681	3,593
Tax-exempt	1,867	1,840
Other	314	321
TOTAL INTEREST INCOME	32,616	29,377
INTEREST EXPENSE:		
Deposits	2,817	1,764
Short-term borrowings	323	99
Other borrowings	50	41
TOTAL INTEREST EXPENSE	3,190	1,904
NET INTEREST INCOME	29,426	27,473
Provision for loan losses	1,470	1,473
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	27,956	26,000
NON-INTEREST INCOME:		
Trust and financial services	1,204	1,415
Service charges and fees on deposit accounts	2,624	2,885
Other service charges and fees	3,114	3,144
Securities gains, net	(4)	—
Gain on sales of mortgage loans	420	340
Other	278	319
TOTAL NON-INTEREST INCOME	7,636	8,103
NON-INTEREST EXPENSE:		
Salaries and employee benefits	12,755	12,965
Occupancy expense	1,815	1,781
Equipment expense	1,817	1,693
FDIC Expense	140	227
Other	7,166	6,545
TOTAL NON-INTEREST EXPENSE	23,693	23,211
INCOME BEFORE INCOME TAXES	11,899	10,892
Provision for income taxes	2,217	1,939
NET INCOME	9,682	8,953
OTHER COMPREHENSIVE INCOME (LOSS)		
Change in unrealized gains/(losses) on securities, net of reclassifications and taxes	10,224	(7,699)
Change in funded status of post retirement benefits, net of taxes	303	281
COMPREHENSIVE INCOME	$ 20,209	$ 1,535
PER SHARE DATA		
Basic and Diluted Earnings per Share	$ 0.79	$ 0.73
Weighted average number of shares outstanding (in thousands)	12,282	12,248

See accompanying notes.

FIRST FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
Three Months Ended
March 31, 2019, and 2018
(Dollar amounts in thousands, except per share data)
(Unaudited)

	Common Stock	Additional Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Treasury Stock	Total
Balance, January 1, 2018	$ 1,822	$ 75,624	$ 420,275	$ (14,704)	$ (69,448)	$ 413,569
Net income	—	—	8,953	—	—	8,953
Other comprehensive loss	—	—	—	(7,418)	—	(7,418)
Omnibus Equity Incentive Plan	1	186	—	—	—	187
Treasury shares purchased (8,639 shares)	—	—	—	—	(391)	(391)
ASU 2018-02 adjustment	—	—	2,366	(2,366)	—	—
Balance, March 31, 2018	$ 1,823	$ 75,810	$ 431,594	$ (24,488)	$ (69,839)	$ 414,900
Balance, January 1, 2019	$ 1,824	$ 76,774	$ 456,716	$ (23,454)	$ (69,159)	$ 442,701
Net income	—	—	9,682	—	—	9,682
Other comprehensive income	—	—	—	10,527	—	10,527
Omnibus Equity Incentive Plan	1	200	—	—	—	201
Treasury shares purchased (7,866 shares)	—	—	—	—	(315)	(315)
Balance, March 31, 2019	$ 1,825	$ 76,974	$ 466,398	$ (12,927)	$ (69,474)	$ 462,796

See accompanying notes.

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

	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	$ 9,682	$ 8,953
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization (accretion) of premiums and discounts on investments	900	885
Provision for loan losses	1,470	1,473
Securities (gains)	4	—
Loss on sale of other real estate	8	(16)
Restricted stock compensation	201	187
Depreciation and amortization	1,000	1,036
Other, net	1,185	(3,488)
NET CASH FROM OPERATING ACTIVITIES	14,450	9,030
CASH FLOWS FROM INVESTING ACTIVITIES:		
Calls, maturities and principal reductions on securities available-for-sale	27,321	37,679
Purchases of securities available-for-sale	(16,214)	(39,195)
Loans made to customers, net of repayment	(31,248)	(1,926)
Purchase of restricted stock	(22)	(11)
Proceeds from sales of other real estate owned	13	113
Net change in federal funds sold	(2,000)	(1,500)
Additions to premises and equipment	(309)	(432)
NET CASH FROM INVESTING ACTIVITIES	(22,459)	(5,272)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net change in deposits	(17,171)	(1,464)
Net change in short-term borrowings	(13,008)	(28,608)
Maturities of other borrowings	(92,000)	(50,000)
Proceeds from other borrowings	117,000	50,000
Purchase of treasury stock	(315)	(391)
Dividends paid	(6,258)	(6,246)
NET CASH FROM FINANCING ACTIVITIES	(11,752)	(36,709)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(19,761)	(32,951)
CASH AND DUE FROM BANKS, BEGINNING OF PERIOD	74,388	74,107
CASH AND DUE FROM BANKS, END OF PERIOD	$ 54,627	$ 41,156

See accompanying notes.

FIRST FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The accompanying March 31, 2019 and 2018 consolidated financial statements are unaudited. The December 31, 2018 consolidated financial statements are as reported in the First Financial Corporation (the "Corporation") 2018 annual report. The information presented does not include all information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. The following notes should be read together with notes to the consolidated financial statements included in the 10-K filed with the Securities and Exchange Commission for the fiscal year ended December 31, 2018.

1. Significant Accounting Policies

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

The Omnibus Equity Incentive Plan is a long-term incentive plan that was designed to align the interests of participants with the interests of shareholders. Under the plan, awards may be made based on certain performance measures. The grants are made in restricted stock units that are subject to a vesting schedule. These shares vest over 3 years in increments of 33%, 33%, and 34% respectively. For the three months ended 2019 and 2018, 19,783 and 17,220 shares were awarded, respectively. These shares had a grant date value of $841 thousand and $784 thousand for 2019 and 2018, vest over three years, and their grant is not subject to future performance measures. Outstanding shares are increased at the award date for the total shares awarded.

2. Allowance for Loan Losses

The following table presents the activity of the allowance for loan losses by portfolio segment for the three months ended March 31.

Allowance for Loan Losses:			March 31, 2019		
(Dollar amounts in thousands)	Commercial	Residential	Consumer	Unallocated	Total
Beginning balance	$ 9,848	$ 1,313	$ 7,481	$ 1,794	$ 20,436
Provision for loan losses	(640)	296	941	873	1,470
Loans charged -off	(256)	(302)	(1,551)	—	(2,109)
Recoveries	287	185	691	—	1,163
Ending Balance	$ 9,239	$ 1,492	$ 7,562	$ 2,667	$ 20,960

Allowance for Loan Losses:			March 31, 2018		
(Dollar amounts in thousands)	Commercial	Residential	Consumer	Unallocated	Total
Beginning balance	$ 10,281	$ 1,455	$ 6,709	$ 1,464	$ 19,909
Provision for loan losses	8	(9)	1,018	456	1,473
Loans charged -off	(315)	(219)	(1,539)	—	(2,073)
Recoveries	178	162	593	—	933
Ending Balance	$ 10,152	$ 1,389	$ 6,781	$ 1,920	$ 20,242

The following table presents the allocation of the allowance for loan losses and the recorded investment in loans by portfolio segment and based on the impairment method at March 31, 2019 and December 31, 2018.

Allowance for Loan Losses			March 31, 2019		
(Dollar amounts in thousands)	Commercial	Residential	Consumer	Unallocated	Total
Individually evaluated for impairment	$ 763	$ —	$ —	$ —	$ 763
Collectively evaluated for impairment	8,476	1,492	7,562	2,667	20,197
Acquired with deteriorated credit quality	—	—	—	—	—
Ending Balance	$ 9,239	$ 1,492	$ 7,562	$ 2,667	$ 20,960

Loans:			March 31, 2019	
(Dollar amounts in thousands)	Commercial	Residential	Consumer	Total
Individually evaluated for impairment	$ 6,203	$ 4,252	$ —	$ 10,455
Collectively evaluated for impairment	1,180,108	449,510	349,673	1,979,291
Acquired with deteriorated credit quality	1,459	—	—	1,459
Ending Balance	$ 1,187,770	$ 453,762	$ 349,673	$ 1,991,205

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

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

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

	March 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 Recognized
With no related allowance recorded:						
Commercial						
Commercial & Industrial	$ 853	$ 853	$ —	$ 721	$ —	$ —
Farmland	1,953	1,953	—	1,988	—	—
Non Farm, Non Residential	—	—	—	—	—	—
Agriculture	—	—	—	—	—	—
All Other Commercial	1,108	1,108	—	1,111	—	—
Residential						
First Liens	4,252	4,252	—	4,334	—	—
Home Equity	—	—	—	—	—	—
Junior Liens	—	—	—	—	—	—
Multifamily	—	—	—	—	—	—
All Other Residential	—	—	—	—	—	—
Consumer						
Motor Vehicle	—	—	—	—	—	—
All Other Consumer	—	—	—	—	—	—
With an allowance recorded:						
Commercial						
Commercial & Industrial	1,733	1,733	531	1,775	—	—
Farmland	210	210	40	211	—	—
Non Farm, Non Residential	—	—	—	—	—	—
Agriculture	346	346	192	346	—	—
All Other Commercial	—	—	—	—	—	—
Residential						
First Liens	—	—	—	—	—	—
Home Equity	—	—	—	—	—	—
Junior Liens	—	—	—	—	—	—
Multifamily	—	—	—	—	—	—
All Other Residential	—	—	—	—	—	—
Consumer						
Motor Vehicle	—	—	—	—	—	—
All Other Consumer	—	—	—	—	—	—
TOTAL	$ 10,455	$ 10,455	$ 763	$ 10,486	$ —	$ —

(Dollar amounts in thousands)	December 31, 2018 Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Income Recognized
With no related allowance recorded:						
Commercial						
Commercial & Industrial	$ 589	$ 589	$ —	$ 698	$ —	$ —
Farmland	2,022	2,022	—	1,579	—	—
Non Farm, Non Residential	—	—	—	1,443	—	—
Agriculture	—	—	—	49	—	—
All Other Commercial	1,114	1,114	—	1,172	—	—
Residential						
First Liens	4,415	4,415	—	3,371	—	—
Home Equity	—	—	—	—	—	—
Junior Liens	—	—	—	23	—	—
Multifamily	—	—	—	—	—	—
All Other Residential	—	—	—	—	—	—
Consumer						
Motor Vehicle	—	—	—	—	—	—
All Other Consumer	—	—	—	—	—	—
With an allowance recorded:						
Commercial						
Commercial & Industrial	1,819	1,819	593	688	—	—
Farmland	211	211	44	1,691	—	—
Non Farm, Non Residential	—	—	—	—		—
Agriculture	346	346	100	316	—	—
All Other Commercial	—	—	—	—	—	—
Residential						
First Liens	—	—	—	88	—	—
Home Equity	—	—	—	—	—	—
Junior Liens	—	—	—	—	—	—
Multifamily	—	—	—	—	—	—
All Other Residential	—	—	—	—	—	—
Consumer						
Motor Vehicle	—	—	—	—	—	—
All Other Consumer	—	—	—	—	—	—
TOTAL	$ 10,516	$ 10,516	$ 737	$ 11,118	$ —	$ —

(Dollar amounts in thousands)	Three Months Ended March 31, 2018 Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Income Recognized
With no related allowance recorded:			
Commercial			
Commercial & Industrial	$ 788	$ —	$ —
Farmland	930	—	—
Non Farm, Non Residential	2,442	—	—
Agriculture	116	—	—
All Other Commercial	1,218	—	—
Residential			
First Liens	2,032	—	—
Home Equity	—	—	—
Junior Liens	18	—	—
Multifamily	—	—	—
All Other Residential	—	—	—
Consumer			
Motor Vehicle	—	—	—
All Other Consumer	—	—	—
With an allowance recorded:			
Commercial			
Commercial & Industrial	488	—	—
Farmland	3,041	—	—
Non Farm, Non Residential	—	—	—
Agriculture	537	—	—
All Other Commercial	—	—	—
Residential			
First Liens	221	—	—
Home Equity	—	—	—
Junior Liens	—	—	—
Multifamily	—	—	—
All Other Residential	—	—	—
Consumer			
Motor Vehicle	—	—	—
All Other Consumer	—	—	—
TOTAL	$ 11,831	$ —	$ —

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

(Dollar amounts in thousands)	March 31, 2019 Loans Past Due Over 90 Day Still Accruing	Troubled Debt Restructured Accruing	Troubled Debt Restructured Nonaccrual	Nonaccrual Excluding TDR
Commercial				
Commercial & Industrial	$ —	$ 1	$ 135	$ 3,204
Farmland	—	—	—	2,322
Non Farm, Non Residential	—	—	—	76
Agriculture	—	—	—	353
All Other Commercial	—	—	—	1,084
Residential				
First Liens	328	3,384	557	3,079
Home Equity	38	—	—	40
Junior Liens	5	79	—	82
Multifamily	—	—	—	—
All Other Residential	—	—	—	62
Consumer				
Motor Vehicle	171	—	—	159
All Other Consumer	7	299	320	347
TOTAL	$ 549	$ 3,763	$ 1,012	$ 10,808

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

There were $13 thousand of loans covered by loss share agreements with the FDIC included in loans past due over 90 days still on accrual at March 31, 2019 and there were $19 thousand at December 31, 2018. There were $68 thousand of covered loans included in non-accrual loans at March 31, 2019 and there were $91 thousand at December 31, 2018. There were no covered loans at March 31, 2019 or December 31, 2018 that were deemed impaired.

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

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

	March 31, 2019					
(Dollar amounts in thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 days Past Due	Total Past Due	Current	Total
Commercial						
Commercial & Industrial	$ 1,470	$ 295	$ 390	$ 2,155	$ 539,042	$ 541,197
Farmland	7	210	2,067	2,284	102,046	104,330
Non Farm, Non Residential	243	—	56	299	187,202	187,501
Agriculture	933	—	346	1,279	136,067	137,346
All Other Commercial	154	3	—	157	217,239	217,396
Residential						
First Liens	4,243	418	972	5,633	227,340	232,973
Home Equity	98	32	66	196	38,896	39,092
Junior Liens	260	6	17	283	49,540	49,823
Multifamily	52	—	—	52	123,242	123,294
All Other Residential	105	—	—	105	8,475	8,580
Consumer						
Motor Vehicle	3,239	464	216	3,919	319,025	322,944
All Other Consumer	109	16	7	132	26,597	26,729
TOTAL	$ 10,913	$ 1,444	$ 4,137	$ 16,494	$ 1,974,711	$ 1,991,205

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

During the three months ended March 31, 2019 and 2018, the terms of certain loans were modified as troubled debt restructurings (TDRs). The following tables present the activity for TDRs.

	2019			
(Dollar amounts in thousands)	Commercial	Residential	Consumer	Total
January 1,	$ 145	$ 4,043	$ 618	$ 4,806
Added	—	122	71	193
Charged Off	—	(16)	(16)	(32)
Payments	(9)	(130)	(54)	(193)
March 31,	$ 136	$ 4,019	$ 619	$ 4,774

	2018			
(Dollar amounts in thousands)	Commercial	Residential	Consumer	Total
January 1,	2,709	3,611	714	7,034
Added	—	107	74	181
Charged Off	—	(16)	(36)	(52)
Payments	(37)	(134)	(73)	(244)
March 31,	2,672	3,568	679	6,919

Modification of the terms of such loans typically include one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; or a permanent reduction of the recorded investment in the loan. No modification in 2019 or 2018 resulted in the permanent reduction of the recorded investment in the loan. Modifications involving a reduction of the stated interest rate of the loan were for periods ranging from twelve months to five years. Modifications involving an extension of the maturity date were for periods ranging from twelve months to ten years. Troubled debt restructurings during the three months ended March 31, 2019 and 2018 did not result in any material charge-offs or additional provision expense.

The Corporation has no allocations of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of March 31, 2019 and 2018. The Corporation has not committed to lend additional amounts as of March 31, 2019 and 2018 to customers with outstanding loans that are classified as troubled debt restructurings. None of the charge-offs during the three months ended March 31, 2019 and 2018 were of restructurings that had occurred in the previous 12 months.

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Credit Quality Indicators:

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

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

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

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

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

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

	March 31, 2019					
(Dollar amounts in thousands)	Pass	Special Mention	Substandard	Doubtful	Not Rated	Total
Commercial						
Commercial & Industrial	$ 487,407	$ 17,636	$ 24,885	$ —	$ 9,299	$ 539,227
Farmland	88,245	6,552	8,028	—	14	102,839
Non Farm, Non Residential	167,773	6,813	12,311	—	133	187,030
Agriculture	110,152	4,012	20,141	—	532	134,837
All Other Commercial	207,573	41	6,593	—	2,207	216,414
Residential						
First Liens	44,755	1,019	2,780	—	183,592	232,146
Home Equity	764	—	104	—	38,147	39,015
Junior Liens	1,973	73	157	76	47,423	49,702
Multifamily	122,945	—	—	—	26	122,971
All Other Residential	—	—	15	—	8,535	8,550
Consumer						
Motor Vehicle	—	—	619	—	320,980	321,599
All Other Consumer	—	—	34	—	26,560	26,594
TOTAL	$ 1,231,587	$ 36,146	$ 75,667	$ 76	$ 637,448	$ 1,980,924

(Dollar amounts in thousands)	December 31, 2018					
	Pass	Special Mention	Substandard	Doubtful	Not Rated	Total
Commercial						
Commercial & Industrial	$ 472,008	$ 20,600	$ 18,374	$ —	$ 7,428	$ 518,410
Farmland	90,367	7,587	7,783	—	19	105,756
Non Farm, Non Residential	170,757	5,442	10,439	—	1,695	188,333
Agriculture	118,952	10,010	16,637	—	457	146,056
All Other Commercial	198,302	43	6,777	—	2,675	207,797
Residential						
First Liens	43,915	1,043	3,504	—	187,685	236,147
Home Equity	963	—	148	—	38,471	39,582
Junior Liens	1,983	74	224	76	47,060	49,417
Multifamily	109,361	—	—	—	17	109,378
All Other Residential	—	—	15	—	9,131	9,146
Consumer						
Motor Vehicle	—	—	627	—	312,863	313,490
All Other Consumer	—	—	34	—	27,517	27,551
TOTAL	$ 1,206,608	$ 44,799	$ 64,562	$ 76	$ 635,018	$ 1,951,063

3. Securities

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

(Dollar amounts in thousands)	March 31, 2019			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Government agencies	$ 28,916	$ 725	$ (191)	$ 29,450
Mortgage Backed Securities - residential	182,280	1,127	(1,554)	181,853
Collateralized mortgage obligations	339,477	858	(4,468)	335,867
State and municipal obligations	230,304	5,706	(263)	235,747
Collateralized debt obligations	96	3,198	—	3,294
TOTAL	$ 781,073	$ 11,614	$ (6,476)	$ 786,211

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

Contractual maturities of debt securities at March 31, 2019 were as follows. Securities not due at a single maturity or with no maturity date, primarily mortgage-backed and equity securities are shown separately.

	Available-for-Sale	
(Dollar amounts in thousands)	Amortized Cost	Fair Value
Due in one year or less	$ 4,322	$ 4,344
Due after one but within five years	38,062	38,748
Due after five but within ten years	61,454	62,846
Due after ten years	155,478	162,553
	259,316	268,491
Mortgage-backed securities and collateralized mortgage obligations	521,757	517,720
TOTAL	$ 781,073	$ 786,211

There were $2 thousand in gross gains and $6 thousand in losses from investment sales/calls realized by the Corporation for the three months ended March 31, 2019. For the three months ended March 31, 2018 there were no gross gains and no losses on sales of investment securities.

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

	March 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
U.S. Government agencies	$ —	$ —	$ 4,926	$ (191)	$ 4,926	$ (191)
Mortgage Backed Securities - Residential	$ 98	$ (1)	$ 119,293	$ (1,553)	$ 119,391	$ (1,554)
Collateralized mortgage obligations	196	—	211,827	(4,468)	212,023	(4,468)
State and municipal obligations	1,374	(22)	17,031	(241)	18,405	(263)
Total temporarily impaired securities	$ 1,668	$ (23)	$ 353,077	$ (6,453)	$ 354,745	$ (6,476)

	December 31, 2018					
	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	$ 3,052	$ (4)	$ 11,356	$ (467)	$ 14,408	$ (471)
Mortgage Backed Securities - Residential	$ 39,997	$ (553)	$ 111,423	$ (3,477)	$ 151,420	$ (4,030)
Collateralized mortgage obligations	52,838	(455)	241,373	(8,969)	294,211	(9,424)
State and municipal obligations	34,229	(276)	41,742	(1,013)	75,971	(1,289)
Total temporarily impaired securities	$ 130,116	$ (1,288)	$ 405,894	$ (13,926)	$ 536,010	$ (15,214)

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 $6.5 million as of March 31, 2019 and $15.2 million as of December 31, 2018. A majority of these losses represent negative adjustments to market value relative to the interest rate environment reflecting the increase in market rates and not losses related to the creditworthiness of the issuer. Based upon our review of the issuers, we do not believe these investments to be other than temporarily impaired. Management does not intend to sell these securities and it is not more likely than not that we will be required to sell them before their anticipated recovery.

There is one remaining collateralized debt obligations security with previously recorded OTTI but there was no additional OTTI recorded in 2019 or 2018. During the quarter ended June 30, 2018, an obligation was called, resulting in the elimination of the OTTI associated with that obligation. A recovery of previously recorded OTTI of $4.2 million was received and recognized in non-interest income for the period. In addition the Corporation received $2.4 million of interest income associated with the call.

Management has consistently used Standard & Poors pricing to value these investments. There are a number of other pricing sources available to determine fair value for these investments. These sources utilize a variety of methods to determine fair value. The result is a wide range of estimates of fair value for these securities. The Standard & Poors pricing was 82.35 while Moody Investor Service pricing was 20.75, with others falling somewhere in between. We recognize that the Standard & Poors pricing utilized is an estimate, but have been consistent in using this source and its estimate of fair value.

The table below presents a rollforward of the credit losses recognized in earnings for the three month periods ended March 31, 2019 and 2018:

	Three Months Ended March 31,	
(Dollar amounts in thousands)	2019	2018
Beginning balance	$ 2,974	$ 7,132
Increases to the amount related to the credit		
Loss for which other-than-temporary was previously recognized	—	—
Reductions for increases in cash flows collected	—	—
Reductions for securities called during the period	—	—
Ending balance	$ 2,974	$ 7,132

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).

	March 31, 2019			
	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)			
(Dollar amounts in thousands)	Level 1	Level 2	Level 3	Total
U.S. Government agencies	$ —	$ 29,450	$ —	$ 29,450
Mortgage Backed Securities-residential	—	181,853	—	181,853
Collateralized mortgage obligations	—	335,867	—	335,867
State and municipal	—	232,857	2,890	235,747
Collateralized debt obligations	—	—	3,294	3,294
TOTAL	$ —	$ 780,027	$ 6,184	$ 786,211
Derivative Assets		304		
Derivative Liabilities		(304)		

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

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

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 months ended March 31, 2019 and the year ended December 31, 2018.

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Three Months Ended March 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	—	77	77
Transfers	—	—	—
Settlements	(245)	(41)	(286)
Ending balance, March 31	$ 2,890	$ 3,294	$ 6,184

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

The following table presents quantitative information about recurring and non-recurring Level 3 fair value measurements at March 31, 2019.

(Dollar amounts in thousands)	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range
State and municipal obligations	$ 2,890	Discounted cash flow	Discount rate Probability of default	2.87%-4.44% 0%
Other real estate	$ 857	Sales comparison/income approach	Discount rate for age of appraisal and market conditions	5.00%-20.00%
Impaired Loans	$ 1,525	Sales comparison/income approach	Discount rate for age of appraisal and market conditions	0.00%-50.00%

The following table presents quantitative information about recurring and non-recurring Level 3 fair value measurements at December 31, 2018.

(Dollar amounts in thousands)	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range
State and municipal obligations	$ 3,135	Discounted cash flow	Discount rate Probability of default	2.64%-4.80% 0%
Other real estate	$ 603	Sales comparison/income approach	Discount rate for age of appraisal and market conditions	5.00%-20.00%
Impaired Loans	1,639	Sales comparison/income approach	Discount rate for age of appraisal and market conditions	0.00%-50.00%

Impaired loans disclosed in footnote 2, which are measured for impairment using the fair value of collateral, are valued at Level 3. They are carried at a fair value of $1.5 million, after a valuation allowance of $763 thousand at March 31, 2019 and at a fair value of $1.6 million, net of a valuation allowance of $737 thousand at December 31, 2018. The impact to the provision for loan losses for the three months ended March 31, 2019 and for the twelve months ended December 31, 2018 was a $26 thousand increase, and a $112 thousand increase, respectively. Other real estate owned is valued at Level 3. Other real estate owned at March 31, 2019 with a value of $857 thousand was reduced $574 thousand for fair value adjustment. At March 31, 2019 other real estate owned was comprised of $156 thousand from commercial loans and $701 thousand from residential loans. Other real estate owned at December 31, 2018 with a value of $603 thousand was reduced $598 thousand for fair value adjustment. At December 31, 2018 other real estate owned was comprised of $171 thousand from commercial loans and $432 thousand from residential loans.

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

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

	March 31, 2019		
(Dollar amounts in thousands)	Carrying Value	Allowance for Loan Losses Allocated	Fair Value
Commercial			
Commercial & Industrial	$ 1,733	$ 531	$ 1,202
Farmland	210	40	170
Non Farm, Non Residential	—	—	—
Agriculture	346	192	154
All Other Commercial	—	—	—
Residential			
First Liens	—	—	—
Home Equity	—	—	—
Junior Liens	—	—	—
Multifamily	—	—	—
All Other Residential	—	—	—
Consumer			
Motor Vehicle	—	—	—
All Other Consumer	—	—	—
TOTAL	$ 2,289	$ 763	$ 1,526

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

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

	March 31, 2019				
	Carrying	Fair Value			
(Dollar amounts in thousands)	Value	Level 1	Level 2	Level 3	Total
Cash and due from banks	$ 54,627	$ 19,063	$ 35,564	$ —	$ 54,627
Federal funds sold	2,000	—	2,000	—	2,000
Securities available-for-sale	786,211	—	780,027	6,184	786,211
Restricted stock	10,412	n/a	n/a	n/a	n/a
Loans, net	1,963,093	—	—	1,951,534	1,951,534
Accrued interest receivable	14,379	—	4,168	10,211	14,379
Deposits	(2,419,556)	—	(2,411,197)	—	(2,411,197)
Short-term borrowings	(56,648)	—	(56,648)	—	(56,648)
Federal Home Loan Bank advances	(25,000)	—	(25,000)	—	(25,000)
Accrued interest payable	(584)	—	(584)	—	(584)

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

5. Short-Term Borrowings

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

	(000 's)	
	March 31, 2019	December 31, 2018
Federal Funds Purchased	$ 34,650	$ 43,250
Repurchase Agreements	21,998	26,406
	$ 56,648	$ 69,656

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:

Repurchase Agreements	March 31, 2019 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	$ 9,223	$ 90	$ 155	$ 12,530	$ 21,998

Repurchase Agreements	December 31, 2018 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	$ 10,870	$ 6,307	$ 8,683	$ 546	$ 26,406

6. Components of Net Periodic Benefit Cost

	Three Months Ended March 31, (000's)			
	Pension Benefits		Post-Retirement Health Benefits	
	2019	2018	2019	2018
Service cost	$ 304	$ 347	$ 9	$ 10
Interest cost	866	798	36	33
Expected return on plan assets	(896)	(991)	—	—
Net amortization of prior service cost	—	—	—	—
Net amortization of net (gain) loss	389	362	(4)	—
Net Periodic Benefit Cost	$ 663	$ 516	$ 41	$ 43

Employer Contributions

First Financial Corporation previously disclosed in its financial statements for the year ended December 31, 2018 that it expected to contribute $1.8 million and $814 thousand respectively to its Pension Plan and ESOP and $233 thousand to the Post Retirement Health Benefits Plan in 2019. Contributions of $391 thousand have been made to the Pension Plan thus far in 2019. Contributions of $56 thousand have been made through the first three months of 2019 for the Post Retirement Health Benefits plan. No contributions have been made in 2019 for the ESOP. The Pension plan was frozen for most employees at the end of 2012 and for those employees there will be discretionary contributions to the ESOP plan and a 401K plan in place of the former Pension benefit. In the first three months of 2019 and 2018 there has been $390 thousand and $419 thousand of expense accrued for potential contributions to these alternative retirement benefit options.

7. New accounting standards

Accounting Pronouncements Adopted:

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

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

Recent Accounting Pronouncements:

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

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

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

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

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

8. Revenue from Contracts with Customers

All of the Corporation's revenue from contracts with customers in the scope of ASC 606 is recognized within Non-Interest Income. The following table presents the Corporation's sources of Non-Interest Income for the three months ended March 31, 2019 and 2018. Items outside the scope of ASC 606 are noted as such.

	Three Months Ended March 31,	
(Dollar amounts in thousands)	2019	2018
Non-interest income		
Service charges on deposits	$ 2,988	$ 3,233
Asset management fees	1,147	1,218
Interchange income	74	68
Net gains on sales of loans [a]	420	340
Loan servicing fees [a]	318	391
Net gains/(losses) on sales of securities [a]	(4)	—
Other service charges and fees [a]	2,320	2,300
Other [b]	373	553
Total non-interest income	$ 7,636	$ 8,103

[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 March 31, 2019 and March 31, 2018, totaling $(20) thousand and $25 thousand, respectively, which is within the scope of ASC 606; the remaining balance is outside the scope of ASC 606.

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

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

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

Gains/Losses on sales of OREO: The Corporation records a gain or loss from the sale of OREO when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Corporation finances the sale of OREO to the buyer, the Corporation assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the OREO asset is derecognized and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer. In determining the gain or loss on the sale, the Corporation adjusts the transaction price and related gain (loss) on sale if a significant financing component is present.

9. Acquisitions, Divestitures and FDIC Indemnification Asset

The Bank is party to a loss sharing agreement with the FDIC as a result of a 2009 acquisition. Under the loss-sharing agreement ("LSA"), the Bank will share in the losses on assets covered under the agreement (referred to as covered assets). On losses up to $29 million, the FDIC has agreed to reimburse the Bank for 80 percent of the losses. On losses exceeding $29 million, the FDIC has agreed to reimburse the Bank for 95 percent of the losses. The loss-sharing agreement is subject to following servicing procedures as specified in the agreement with the FDIC. Loans acquired that are subject to the loss-sharing agreement with the FDIC are referred to as covered loans for disclosure purposes. Since the acquisition date the Bank has been reimbursed $19.4 million for losses and carrying expenses and currently carries an immaterial balance in the indemnification asset. The balance of loans covered by the loss share agreement at March 31, 2019 and December 31, 2018 totaled $3.0 million and $3.2 million, respectively. The only loans still covered by the loss share agreement are the single family loans.

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. The carrying amount of loans accounted for in accordance with FASB ASC 310-30 at March 31, 2019 and 2018 are shown in the following tables:

			2019
(Dollar amounts in thousands)	**Commercial**	**Consumer**	**Total**
Beginning balance, January 1,	$ 1,530	$ —	$ 1,530
Discount accretion	—	—	—
Disposals	(36)	—	(36)
ASC 310-30 Loans, March 31,	$ 1,494	$ —	$ 1,494

			2018
(Dollar amounts in thousands)	**Commercial**	**Consumer**	**Total**
Beginning balance, January 1,	$ 1,896	$ —	$ 1,896
Discount accretion	—	—	—
Disposals	(36)	—	(36)
ASC 310-30 Loans, March 31,	$ 1,860	$ —	$ 1,860

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 months ended March 31, 2019 and 2018.

	2019		
(Dollar amounts in thousands)	Unrealized gains and (Losses) on available-for-sale Securities	Retirement plans	Total
Beginning balance, January 1,	$ (6,105)	$ (17,349)	$ (23,454)
Change in other comprehensive income (loss) before reclassification	10,221	—	10,221
Amounts reclassified from accumulated other comprehensive income	3	303	306
ASU 2018-02 adjustment	—	—	—
Net current period other comprehensive income (loss)	10,224	303	10,527
Ending balance, March 31,	$ 4,119	$ (17,046)	$ (12,927)

	2018		
(Dollar amounts in thousands)	Unrealized gains and (Losses) on available-for-sale Securities	Retirement plans	Total
Beginning balance, January 1,	$ 2,258	$ (16,962)	$ (14,704)
Change in other comprehensive income (loss) before reclassification	(7,699)	—	(7,699)
Amounts reclassified from accumulated other comprehensive income	—	281	281
Net current period other comprehensive income	(7,699)	281	(7,418)
ASU 2018-02 adjustment	498	(2,864)	(2,366)
Ending balance, March 31,	$ (4,943)	$ (19,545)	$ (24,488)

(Dollar amounts in thousands)	Balance at 1/1/2019	Current Period Change	Balance at 3/31/2019
Unrealized gains (losses) on securities available-for-sale			
without other than temporary impairment	$ (8,446)	$ 10,166	$ 1,720
Unrealized gains (losses) on securities available-for-sale			
with other than temporary impairment	2,341	58	2,399
Total unrealized loss on securities available-for-sale	$ (6,105)	$ 10,224	$ 4,119
Unrealized loss on retirement plans	(17,349)	303	(17,046)
TOTAL	$ (23,454)	$ 10,527	$ (12,927)

(Dollar amounts in thousands)	Balance at 1/1/2018	Current Period Change	ASU 2018-02 Adjustment	Balance at 3/31/2018
Unrealized gains (losses) on securities available-for-sale without other than temporary impairment	$ (1,371)	$ (4,990)	$ (2,864)	$ (9,225)
Unrealized gains (losses) on securities available-for-sale with other than temporary impairment	3,629	653		4,282
Total unrealized loss on securities available-for-sale	$ 2,258	$ (4,337)	$ (2,864)	$ (4,943)
Unrealized loss on retirement plans	(16,962)	(3,081)	498	(19,545)
TOTAL	$ (14,704)	$ (7,418)	$ (2,366)	$ (24,488)

	Three Months Ended March 31, 2019	
Details about accumulated other comprehensive income components	Amount reclassified from accumulated other comprehensive income	Affected line item in the statement where net income is presented
	(in thousands)	
Unrealized gains and losses	$ (4)	Net securities gains (losses)
on available-for-sale	1	Income tax expense
securities	$ (3)	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	$ (306)	Net of tax

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

	Three Months Ended March 31, 2018	
Details about accumulated other comprehensive income components	Amount reclassified from accumulated other comprehensive income	Affected line item in the statement where net income is presented
	(in thousands)	
Unrealized gains and losses	$ —	Net securities gains (losses)
on available-for-sale	—	Income tax expense
securities	$ —	Net of tax
Amortization of	$ (362)	(a) Salary and benefits
retirement plan items	81	Income tax expense
	$ (281)	Net of tax
Total reclassifications for the period	$ (281)	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 March 31, 2019, the Corporation had lease liabilities totaling $6,437,000 and right-of-use assets totaling $6,435,000 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 March 31, 2019, the weighted average remaining lease term for operating leases was 12.3 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)	Three Months Ended March 31, 2019	
Operating lease cost	$	208
Short-term lease cost		11
Variable lease cost		14
Total lease cost	$	233
Other information:		
Cash paid for amounts included in the measurement of operating lease liabilities		223
Right-of-use assets obtained in exchange for new operating lease liabilities		6,613

Future minimum payments for operating leases with initial or remaining terms of one year or more as of March 31, 2019 were as follows:

(Dollar amounts in thousands)	March 31, 2019	
Twelve Months Ended March 31,		
2020	$	858
2021		780
2022		763
2023		763
2024		683
Thereafter		3,825
Total Future Minimum Lease Payments		7,672
Amounts Representing Interest		(1,235)
Present Value of Net Future Minimum Lease Payments	$	6,437

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

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

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

Critical Accounting Policies

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

Summary of Operating Results

Net income for the three months ended March 31, 2019 was $9.7 million, compared to $9.0 million for the same period of 2018. Basic earnings per share increased to $0.79 for the first quarter of 2019 compared to $0.73 for the same period in 2018. Return on Assets and Return on Equity were 1.29% and 8.59% respectively, for the three months ended March 31, 2019 compared to 1.20% and 8.64% for the three months ended March 31, 2018.

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 $1.9 million in the three months ended March 31, 2019 to $29.4 million from $27.5 million in the same period in 2018. The net interest margin for the three months ended March 31, 2019 is 4.31% compared to 4.06% for the same period of 2018, a 6.16% increase.

Non-Interest Income

Non-interest income for the three months ended March 31, 2019 was $7.6 million compared to $8.1 million for the same period of 2018.

Non-Interest Expenses

The Corporation's non-interest expense for the quarter ended March 31, 2019 was $23.7 million compared to $23.2 million for the same period in 2018.

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Allowance for Loan Losses

The Corporation's provision for loan losses remained stable at $1.5 million for first quarter of 2019 compared to $1.5 million for the same period of 2018. Net charge offs for the first quarter of 2019 were $946 thousand compared to $1.1 million for the same period of 2018. Based on management's analysis of the current portfolio, an evaluation that includes consideration of historical loss experience, non-performing loans trends, and probable incurred losses on identified problem loans, management believes the allowance is adequate.

Income Tax Expense

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

Non-performing Loans

Non-performing loans consist of (1) non-accrual loans on which the ultimate collectability of the full amount of interest is uncertain, (2) loans which have been renegotiated to provide for a reduction or deferral of interest or principal because of a deterioration in the financial position of the borrower, and (3) loans past due ninety days or more as to principal or interest. Non-performing loans decreased to $16.1 million at March 31, 2019 compared to $16.6 million at December 31, 2018. Nonperforming loans decreased 22.3% compared to $20.7 million as of March 31, 2018. A summary of non-performing loans at March 31, 2019 and December 31, 2018 follows:

	(000's)	
	March 31, 2019	December 31, 2018
Non-accrual loans	$ 10,808	$ 10,974
Accruing restructured loans	3,690	3,702
Nonaccrual restructured loans	1,084	1,104
Accruing loans past due over 90 days	507	798
	$ 16,089	$ 16,578
Ratio of the allowance for loan losses		
as a percentage of non-performing loans	130.3%	123.3%

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

	(000's)	
	March 31, 2019	December 31, 2018
Non-accrual loans		
Commercial loans	$ 7,039	$ 6,851
Residential loans	3,263	3,618
Consumer loans	506	505
	$ 10,808	$ 10,974
Past due 90 days or more		
Commercial loans	$ —	$ —
Residential loans	337	630
Consumer loans	170	168
	$ 507	$ 798

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 March 31, 2019. The change in interest rates assumes a parallel shift in interest rates of 100 and 200 basis points. Given a 100 basis point increase in rates, net interest income would increase 2.25% over the next 12 months and increase 5.40% over the following 12 months. Given a 100 basis point decrease in rates, net interest income would decrease 3.23% over the next 12 months and decrease 6.71% 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 200	-8.01 %	-14.07 %	-19.11 %
Down 100	-3.23	-6.71	-9.56
Up 100	2.25	5.40	8.66
Up 200	1.68	7.64	14.10

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 $4.4 million of investments that mature throughout the next 12 months. The Corporation also anticipates $103.4 million of principal payments from mortgage-backed securities. Given the current rate environment, the Corporation anticipates $30.3 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 three months of 2019 to the same period in 2018, loans, net of deferred loan costs, have increased $77 million to $2.0 billion. Deposits decreased 1.5% to $2.4 billion at March 31, 2019 compared to March 31, 2018. Shareholders' equity increased 11.5% or $47.9 million. This financial performance increased book value per share 11.2% to $37.66 at March 31, 2019 from $33.86 at March 31, 2018. Book value per share is calculated by dividing the total shareholders' equity by the number of shares outstanding.

Capital Adequacy

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

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

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

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

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

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

	March 31, 2019	December 31, 2018	To Be Well Capitalized
Common equity tier 1 capital			
Corporation	18.65%	18.48%	N/A
First Financial Bank	17.94%	17.99%	6.50%
Total risk-based capital			
Corporation	19.54%	19.36%	N/A
First Financial Bank	18.67%	18.71%	10.00%
Tier I risk-based capital			
Corporation	18.65%	18.48%	N/A
First Financial Bank	17.94%	17.99%	8.00%
Tier I leverage capital			
Corporation	14.83%	14.59%	N/A
First Financial Bank	14.15%	14.19%	5.00%

ITEM 4. Controls and Procedures

First Financial Corporation’s management is responsible for establishing and maintaining effective disclosure controls and procedures, as defined under Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934. As of March 31, 2019, an evaluation was performed under the supervision and with the participation of management, including the principal executive officer and principal financial officer, of the effectiveness of the design and operation of the Corporation's disclosure controls and procedures. Based on that evaluation, management, including the principal executive officer and principal financial officer, concluded that the Corporation’s disclosure controls and procedures as of March 31, 2019 were effective in ensuring material information required to be disclosed in this Quarterly Report on Form 10-Q was recorded, processed, summarized, and reported on a timely basis. Additionally, there was no change in the Corporation's internal control over financial reporting that occurred during the quarter ended March 31, 2019 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 2018 Form 10-K filed for December 31, 2018.

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

(a) None.

(b) Not applicable.

(c) Purchases of Equity Securities

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

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

	(a) Total Number Of Shares Purchased	(b) Average Price Paid Per Share	(c) Total Number Of Shares Purchased As Part Of Publicly Announced Plans Or Programs *	(c) Maximum Number of Shares That May Yet Be Purchased *
January 1-31, 2019	—	—	N/A	N/A
February 1-28, 2019	—	—	—	—
March 1-31, 2019	—	—	—	—
Total	—	—	—	71,882

ITEM 3. Defaults upon Senior Securities.

Not applicable.

ITEM 4. Mine Safety Disclosures

Not applicable.

ITEM 5. Other Information.

Not applicable.

ITEM 6. Exhibits.

Exhibit No.:	Description of Exhibit:
3.1	Amended and Restated Articles of Incorporation of First Financial Corporation, incorporated by reference to Exhibit 3(i) of the Corporation's Form 10-Q filed for the quarter ended September 30, 2002.
3.2	Code of By-Laws of First Financial Corporation, incorporated by reference to Exhibit 3(ii) of the Corporation's Form 8-K filed on August 24, 2012.
10.1*	Employment Agreement for Norman L. Lowery, dated and effective July 1, 2019, incorporated by reference to Exhibit 10.01 of the Corporation's Form 8-K filed on April 3, 2019.
10.2*	2001 Long-Term Incentive Plan of First Financial Corporation, incorporated by reference to Exhibit 10.3 of the Corporation's Form 10-Q filed for the quarter ended September 30, 2002.
10.5*	2005 Long-Term Incentive Plan of First Financial Corporation, incorporated by reference to Exhibit 10.7 of the Corporation's Form 8-K filed on September 4, 2007.
10.6*	2005 Executives Deferred Compensation Plan, incorporated by reference to Exhibit 10.5 of the Corporation's Form 8-K filed on September 4, 2007.
10.7*	2005 Executives Supplemental Retirement Plan, incorporated by reference to Exhibit 10.6 of the Corporation's Form 8-K filed on September 4, 2007.
10.9*	First Financial Corporation 2010 Long-Term Incentive Compensation Plan incorporated by reference to Exhibit 10. 9 of the Corporation's Form 10-K filed March 15, 2011.
10.10*	First Financial Corporation 2011 Short-Term Incentive Compensation Plan incorporated by reference to Exhibit 10.10 of the Corporation's Form 10-K filed March 15, 2011.
10.11*	First Financial Corporation 2011 Omnibus Equity Incentive Plan incorporated by reference to Exhibit 10.11 of the Corporation's Form 10-Q for the quarter ended March 31, 2011 filed on May 9, 2011.
10.12*	Form of Restricted Stock Award Agreement under the First Financial Corporation 2011 Omnibus Equity Incentive Plan incorporated by reference to Exhibit 10.12 of the Corporation's Form 10-Q for the quarter ended March 31, 2012 filed on May 10, 2012.
10.13*	Employment Agreement for Norman D. Lowery, dated January 28, 2109, incorporated by reference to Exhibit 10.1 of the Corporation's Form 8-K filed February 1, 2019.
10.14*	Employment Agreement for Rodger A. McHargue, dated January 28, 2019, incorporated by reference to Exhibit 10.2 of the Corporation's Form 8-K filed February 1, 2019.
10.15*	Employment Agreement for Steven H. Holliday, dated January 28, 2019, incorporated by reference to Exhibit 10.3 of the Corporation's Form 8-K filed February 1, 2019.
10.16*	Employment Agreement for Karen L. Stinson-Milienu, dated January 28, 2019, incorporated by reference to Exhibit 10.4 of the Corporation's Form 8-K filed February 1, 2019.
31.1	Sarbanes-Oxley Act 302 Certification for Quarterly Report on Form 10-Q for the quarter ended March 31, 2019 by Principal Executive Officer, dated May 8, 2019.
31.2	Sarbanes-Oxley Act 302 Certification for Quarterly Report on Form 10-Q for the quarter ended March 31, 2019 by Principal Financial Officer, dated May 8, 2019.
32.1	Certification, dated May 8, 2019, of Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2005 on Form 10-Q for the quarter ended March 31, 2019.
101.1	Financial statements from the Quarterly Report on Form 10-Q of the Corporation for the quarter ended March 31, 2019, formatted in XBRL pursuant to Rule 405 : (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income and Comprehensive Income, (iii) Consolidated Statements of Cash Flows, (iv) Consolidated Statements of Shareholders' Equity, and (v) Notes to Consolidated Financial Statements, as blocks of text and in detail**.

*Management contract or compensatory plan or arrangement.

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

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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: May 8, 2019	By /s/ Norman L. Lowery
	Norman L. Lowery, Vice Chairman, President and CEO
	(Principal Executive Officer)
Date: May 8, 2019	By /s/ Rodger A. McHargue
	Rodger A. McHargue, Treasurer and CFO
	(Principal Financial Officer)

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Section 2: EX-31.1 (EXHIBIT 31.1)

Exhibit 31.1

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

I, Norman L. Lowery, certify that:

1 I have reviewed this quarterly report on Form 10-Q of First Financial Corporation;

2 Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3 Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4 The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 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: May 8, 2019

By /s/ Norman L. Lowery

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

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Section 3: EX-31.2 (EXHIBIT 31.2)

Exhibit 31.2

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

I, Rodger A. McHargue, certify that:

1 I have reviewed this quarterly report on Form 10-Q of First Financial Corporation;

2 Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3 Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4 The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 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: May 8, 2019

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

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Section 4: EX-32.1 (EXHIBIT 32.1)

Exhibit 32.1

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

In connection with the Quarterly Report on Form 10-Q of First Financial Corporation (the "Company") for the Quarterly period ended March 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Norman L. Lowery , as the Chief Executive Officer of the Company, and Rodger A. McHargue, as the Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to his knowledge:

1. This Report fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934, and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

May 8, 2019

By /s/ Norman L. Lowery
Norman L. Lowery, Vice Chairman, President & CEO
(Principal Executive Officer)

May 8, 2019

By /s/ Rodger A. McHargue
Rodger A. McHargue, Treasurer & CFO
(Principal Financial Officer)

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