

FIRST FINANCIAL CORP /IN/
Form 10-K
March 07, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2017

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

For the transition period from _____ to _____

Commission file number 0-16759
FIRST FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)
INDIANA 35-1546989
(State of Incorporation) (I.R.S. Employer Identification Number)
One First Financial Plaza
Terre Haute, Indiana 47807
(Address of Registrant's Principal Executive Offices) (Zip Code)

(812) 238-6000
(Registrant's Telephone Number, Including Area Code)
Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Name of Exchange on Which Registered |
|----------------------------|--|
| Common Stock, no par value | The NASDAQ Stock Market LLC (NASDAQ Global Select Market) |

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known-seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 shorter 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

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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 (§ 232.405 of this chapter) 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 definition of “accelerated filer”, “large accelerated filer”, and “smaller reporting company” in Rule 12b-2 of the Exchange Act of 1934.

Large accelerated filer Accelerated filer Non-accelerated filer 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 Act). Yes No

As of June 30, 2017 the aggregate market value of the stock held by non-affiliates of the registrant based on the average bid and ask prices of such stock was \$515,437,610. (For purposes of this calculation, the Corporation excluded the stock owned by certain beneficial owners and management and the Corporation’s Employee Stock Ownership Plan.)

Shares of Common Stock outstanding as of March 1, 2018—12,255,045 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Definitive Proxy Statement for the First Financial Corporation Annual Meeting of Shareholders to be held April 18, 2018 are incorporated by reference into Part III.

FIRST FINANCIAL CORPORATION
 2017 ANNUAL REPORT ON FORM 10-K
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FIRST FINANCIAL CORPORATION
2017 ANNUAL REPORT ON FORM 10-K

PART I

ITEM 1. BUSINESS

FORWARD-LOOKING STATEMENTS

A cautionary note about forward-looking statements: In its oral and written communication, First Financial Corporation from time to time includes forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements can include statements about estimated cost savings, plans and objectives for future operations and expectations about performance, as well as economic and market conditions and trends. They often can be identified by the use of words such as "expect," "may," "could," "intend," "project," "estimate," "believe" or "anticipate" or words of similar import. By their nature, forward-looking statements are based on assumptions and are subject to risks, uncertainties and other factors. Actual results may differ materially from those contained in the forward-looking statement. First Financial Corporation may include forward-looking statements in filings with the Securities and Exchange Commission, in other written materials such as this Annual Report and in oral statements made by senior management to analysts, investors, representatives of the media and others. It is intended that these forward-looking statements speak only as of the date they are made, and First Financial Corporation undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the forward-looking statement is made or to reflect the occurrence of unanticipated events.

The discussion in Item 1A (Risk Factors) and Item 7 (Management's Discussion and Analysis of Results of Operations and Financial Condition) of this Annual Report on Form 10-K, lists some of the factors which could cause actual results to vary materially from those in any forward-looking statements. Other uncertainties which could affect First Financial Corporation's future performance include the effects of competition, technological changes and regulatory developments; changes in fiscal, monetary and tax policies; market, economic, operational, liquidity, credit and interest rate risks associated with First Financial Corporation's business; inflation; competition in the financial services industry; changes in general economic conditions, either nationally or regionally, resulting in, among other things, credit quality deterioration; and changes in securities markets. Investors should consider these risks, uncertainties and other factors in addition to those mentioned by First Financial Corporation in its other filings from time to time when considering any forward-looking statement.

GENERAL

First Financial Corporation (the "Corporation") is a financial holding company. The Corporation was originally organized as an Indiana corporation in 1984 to operate as a bank holding company.

The Corporation, which is headquartered in Terre Haute, Indiana, offers a wide variety of financial services including commercial, mortgage and consumer lending, lease financing, trust account services, depositor services and insurance services through its four subsidiaries. At the close of business in 2017 the Corporation and its subsidiaries had 847 full-time equivalent employees.

The risk characteristics of each loan portfolio segment are as follows:

Commercial

Commercial loans are predominately loans to expand a business or finance asset purchases. The underlying risk in the Commercial loan segment is primarily a function of the reliability and sustainability of the cash flows of the borrower and secondarily on the underlying collateral securing the transaction. From time to time, the cash flows of borrowers

may be less than historical or as planned. In addition, the underlying collateral securing these loans may fluctuate in value. Most commercial loans are secured by the assets financed or other business assets and most commercial loans are further supported by a personal guarantee. However, in some instances, short term loans are made on an unsecured basis. Agriculture production loans are typically secured by growing crops and generally secured by other assets such as farm equipment. Production loans are subject to weather and market pricing risks. The Corporation has established underwriting standards and guidelines for all commercial loan types.

The Corporation strives to maintain a geographically diverse commercial real estate portfolio. Commercial real estate loans are primarily underwritten based upon the cash flows of the underlying real estate or from the cash flows of the business conducted at the real estate. Generally, these types of loans will be fully guaranteed by the principal owners of the real estate and loan amounts must be supported by adequate collateral value. Commercial real estate loans may be adversely affected by factors in the local market, the regional economy, or industry specific factors. In addition, Commercial Construction loans are a specific type of commercial real estate loan which inherently carry more risk than loans for completed projects. Since these types of loans are

underwritten utilizing estimated costs, feasibility studies, and estimated absorption rates, the underlying value of the project may change based upon the inaccuracy of these projections. Commercial construction loans are closely monitored, subject to industry standards, and disbursements are controlled during the construction process.

Residential

Retail real estate mortgages that are secured by 1-4 family residences are generally owner occupied and include residential real estate and residential real estate construction loans. The Corporation typically establishes a maximum loan-to-value ratio and generally requires private mortgage insurance if the ratio is exceeded. The Corporation sells substantially all of its long-term fixed mortgages to secondary market purchasers. Mortgages sold to secondary market purchasers are underwritten to specific guidelines. The Corporation originates some mortgages that are maintained in the bank's loan portfolio. Portfolio loans are generally adjustable rate mortgages and are underwritten to conform to Qualified Mortgage standards. Several factors are considered in underwriting all Mortgages including the value of the underlying real estate, debt-to-income ratio and credit history of the borrower. Repayment is primarily dependent upon the personal income of the borrower and can be impacted by changes in borrower's circumstances such as changes in employment status and changes in real estate property values. Risk is mitigated by the sale of substantially all long-term fixed rate mortgages, the underwriting of portfolio loans to Qualified Mortgage standards and the fact that mortgages are generally smaller individual amounts spread over a large number of borrowers.

Consumer

The consumer portfolio primarily consists of home equity loans and lines (typically secured by a subordinate lien on a 1-4 family residence), secured loans (typically secured by automobiles, boats, recreational vehicles, or motorcycles), cash/CD secured, and unsecured loans. Pricing, loan terms, and loan to value guidelines vary by product line. The underlying value of collateral dependent loans may vary based on a number of economic conditions, including fluctuations in home prices and unemployment levels. Underwriting of consumer loans is based on the individual credit profile and analysis of the debt repayment capacity for each borrower. Payments for consumer loans is typically set-up on equal monthly installments, however, future repayment may be impacted by a change in economic conditions or a change in the personal income levels of individual customers. Overall risks within the consumer portfolio are mitigated by the mix of various loan products, lending in various markets and the overall make-up of the portfolio (small loan sizes and a large number of individual borrowers).

COMPANY PROFILE

First Financial Bank, N.A. (the "Bank") is the largest bank in Vigo County, Ind. It operates 11 full-service banking branches within the county; three in Clay County, Ind.; one in Daviess County, Ind.; one in Gibson County, Ind.; one in Greene County, Ind.; three in Knox County, Ind.; four in Parke County, Ind.; one in Putnam County, Ind., four in Sullivan County, Ind.; one in Vanderburgh, County.; four in Vermillion County, Ind.; four in Champaign County, Illinois; one in Clark County, Ill.; three in Coles County, Ill.; two in Crawford County, Ill.; two in Franklin County, Ill.; one in Jasper County, Ill.; two in Jefferson County, Ill.; one in Lawrence County, Ill.; two in Livingston County, Illinois; two in Marion County, Ill.; one in Montgomery County, Ill.; three in McLean County, Illinois; two in Richland County, Ill.; six in Vermilion County, Ill.; and one in Wayne County, Ill. In addition to its branches, it has a main office in downtown Terre Haute and a 50,000-square-foot commercial building on South Third Street in Terre Haute, which serves as the Corporation's operations center and provides additional office space. The Morris Plan Company of Terre Haute, Inc. ("Morris Plan") has one office and is located in Vigo County. First Chanticleer Corporation has one building located in Terre Haute, Indiana. FFB Risk Management Co., Inc. located in Las Vegas, Nevada is a captive insurance subsidiary which insures various liability and property damage policies for First Financial Corporation subsidiaries.

COMPETITION

First Financial Bank and Morris Plan face competition from other financial institutions. These competitors consist of commercial banks, a mutual savings bank and other financial institutions, including consumer finance companies,

insurance companies, brokerage firms and credit unions.

The Corporation's business activities are centered in west-central Indiana and east-central Illinois. The Corporation has no foreign activities other than periodically investing available funds in time deposits held in foreign branches of domestic banks.

REGULATION AND SUPERVISION

The Corporation and its subsidiaries operate in highly regulated environments and are subject to supervision and regulation by several governmental regulatory agencies, including the Board of Governors of the Federal Reserve System (the “Federal Reserve”), the Office of the Comptroller of the Currency (the “OCC”), the Federal Deposit Insurance Corporation (the “FDIC”), and the Indiana Department of Financial Institutions (the “DFI”). The laws and regulations established by these agencies are generally intended to protect depositors, not shareholders. Changes in applicable laws, regulations, governmental policies, income tax laws and accounting principles may have a material effect on the Corporation’s business and prospects. The following summary is qualified by reference to the statutory and regulatory provisions discussed.

The Dodd-Frank Act

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act” or “Dodd-Frank”), which was enacted in July 2010, significantly restructured the financial regulatory regime in the United States. Although the Dodd-Frank Act’s provisions that have received the most public attention generally have been those applying to or more likely to affect larger institutions such as bank holding companies with total consolidated assets of \$50 billion or more, it contains numerous other provisions that affect all bank holding companies and banks, including the Corporation, the Bank, and Morris Plan, some of which are described in more detail below.

Because full implementation of the Dodd-Frank Act will occur over several years, it is difficult to anticipate the overall financial impact on the Corporation, its customers or the financial industry generally. However, the impact is expected to be substantial and may have an adverse impact on the Corporation’s financial performance and growth opportunities.

The Volcker Rule

The Dodd-Frank Act requires the federal financial regulatory agencies to adopt rules that prohibit banks and their affiliates from engaging in proprietary trading and investing in and sponsoring certain unregistered investment companies (defined as hedge funds and private equity funds). The statutory provision is commonly called the “Volcker Rule”. Although the Corporation is continuing to evaluate the impact of the Volcker Rule and the final rules adopted thereunder, the Corporation does not currently anticipate that the Volcker Rule will have a material effect on the operations of the Bank, Morris Plan, or their respective subsidiaries, as the Corporation does not engage in the businesses prohibited by the Volcker Rule. The Corporation may incur costs to adopt additional policies and systems to ensure compliance with the Volcker Rule, but any such costs are not expected to be material.

Consumer Financial Protection Bureau

The Consumer Financial Protection Bureau (the “CFPB”), created by the Dodd-Frank Act, is responsible for administering federal consumer financial protection laws. The CFPB, which began operations on July 21, 2011, is an independent bureau within the Federal Reserve and has broad rule-making, supervisory and examination authority to set and enforce rules in the consumer protection area over financial institutions that have assets of \$10 billion or more. The CFPB also has data collecting powers for fair lending purposes for both small business and mortgage loans, as well as authority to prevent unfair, deceptive and abusive practices. Abusive acts or practices are defined as those that:

- (1) materially interfere with a consumer’s ability to understand a term or condition of a consumer financial product or service, or
- (2) take unreasonable advantage of a consumer’s:
 - lack of financial savvy,
 - inability to protect himself in the selection or use of consumer financial products or services,

or

reasonable reliance on a covered entity to act in the consumer's interests.

The CFPB has the authority to investigate possible violations of federal consumer financial law, hold hearings and commence civil litigation. The CFPB can issue cease-and-desist orders against banks and other entities that violate consumer financial laws. The CFPB may also institute a civil action against an entity in violation of federal consumer financial law in order to impose a civil penalty or an injunction.

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BASEL III

In July 2013, the federal banking agencies published the Basel III Capital Rules establishing a new comprehensive capital framework for U.S. banking organizations. The rules implement the Basel Committee's December 2010 framework known as "Basel III" for strengthening international capital standards as well as certain provisions of the Dodd-Frank Act.

The Basel III Capital Rules became effective on January 1, 2015 (subject to a phase-in period) and, among other things, introduced a new capital measure known as "Common Equity Tier 1" ("CET1"), which generally consists of common equity Tier 1 capital instruments and related surplus, retained earnings, and common equity Tier 1 minority interests, minus certain adjustments and deductions.

The Basel III Capital Rules provide for a number of deductions from and adjustments to CET1. These include, for example, the requirement that mortgage servicing rights, deferred tax assets arising from temporary differences that could not be realized through net operating loss carrybacks and significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such categories in the aggregate exceed 15% of CET1. Under the former capital standards, the effects of accumulated other comprehensive income items included in capital were excluded for the purposes of determining regulatory capital ratios. Under the Basel III Capital Rules, the effects of certain accumulated other comprehensive items are not excluded; however, non-advanced approaches banking organizations, including the Corporation, may make a one-time permanent election to continue to exclude these items. The Corporation, the Bank and Morris Plan all made this election in order to avoid significant variations in the level of capital depending upon the impact of interest rate fluctuations on the fair value of the Corporation's available-for-sale securities portfolio. The Basel III Capital Rules also preclude certain hybrid securities, such as trust preferred securities, as Tier 1 capital of bank holding companies, subject to phase-out. The Corporation has no trust preferred securities. Implementation of the deductions and other adjustments to CET1 began on January 1, 2015 and will be phased-in over a four-year period (beginning at 40% on January 1, 2015 and an additional 20% per year thereafter).

The Basel III Capital Rules prescribe a standardized approach for risk weightings that expand the risk-weighting categories from the current four Basel I-derived categories (0%, 20%, 50% and 100%) to a much larger and more risk-sensitive number of categories, depending on the nature of the assets, generally ranging from 0% for U.S. government and agency securities, to 600% for certain equity exposures, and resulting in higher risk weights for a variety of asset categories. Specific changes from former capital rules impacting the Corporation's determination of risk-weighted assets include, among other things:

• Applying a 150% risk weight instead of a 100% risk weight for certain high volatility commercial real estate acquisition, development and construction loans;

• Assigning a 150% risk weight to exposures (other than residential mortgage exposures) that are 90 days past due;

• Providing for a 20% credit conversion factor for the unused portion of a commitment with an original maturity of one year or less that is not unconditionally cancellable (currently set at 0%); and

• Providing for a risk weight, generally not less than 20% with certain exceptions, for securities lending transactions based on the risk weight category of the underlying collateral securing the transaction.

When fully phased in on January 1, 2019, the Basel III Capital Rules will require the Corporation and its banking subsidiaries to maintain:

a minimum ratio of CET1 to risk-weighted assets of at least 4.5%, plus a 2.5% “capital conservation buffer” (which is added to the 4.5% CET1 ratio as that buffer is phased in, effectively resulting in a minimum ratio of CET1 to risk-weighted assets of at least 7% upon full implementation);

a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the capital conservation buffer (which is added to the 6.0% Tier 1 capital ratio as that buffer is phased in, effectively resulting in a minimum Tier 1 capital ratio of 8.5% upon full implementation);

a minimum ratio of Total capital (that is, Tier 1 plus Tier 2) to risk-weighted assets of at least 8.0%, plus the capital conservation buffer (which is added to the 8.0% total capital ratio as that buffer is phased in, effectively resulting in a minimum total capital ratio of 10.5% upon full implementation), and

a minimum leverage ratio of 4%, calculated as the ratio of Tier 1 capital to average assets.

The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the conservation buffer (or below the combined capital conservation buffer and countercyclical capital buffer, when the latter is applied) will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall. The implementation of the capital conservation buffer began on January 1, 2016 at the 0.625% level and will be phased in over a four-year period (increasing by that amount on each subsequent January 1, until it reaches 2.5% on January 1, 2019).

Under the Basel III Capital Rules, the minimum capital ratios as of January 1, 2017 are as follows:

- 5.75% CET1 to risk-weighted assets;
- 7.25% Tier 1 capital to risk-weighted assets; and
- 9.25% Total capital to risk-weighted assets.

Certain regulatory capital ratios for the Corporation as of December 31, 2017, are shown below:

- 17.01% CET1 to risk-weighted assets;
- 17.01% Tier 1 capital to risk-weighted assets;
- 17.88% Total capital to risk-weighted assets; and
- 13.31% leverage ratio.

Certain regulatory capital ratios for the Bank as of December 31, 2017, are shown below:

- 16.56% CET1 to risk-weighted assets;
- 16.56% Tier 1 capital to risk-weighted assets;
- 17.30% Total capital to risk-weighted assets; and
- 12.81% leverage ratio.

Certain regulatory capital ratios for Morris Plan as of December 31, 2017, are shown below:

- 32.63% CET1 to risk-weighted assets;
- 32.63% Tier 1 capital to risk-weighted assets;
- 33.93% Total capital to risk-weighted assets; and
- 28.66% leverage ratio.

The Corporation

The Bank Holding Company Act. Because the Corporation owns all of the outstanding capital stock of the Bank, it is registered as a bank holding company under the Federal Bank Holding Company Act of 1956 (“Act”) and is subject to periodic examination by the Federal Reserve and required to file periodic reports of its operations and any additional information that the Federal Reserve may require.

In general, the Act limits the business of bank holding companies to banking, managing or controlling banks and other activities that the Federal Reserve has determined to be so closely related to banking as to be a proper incident thereto. In addition, bank holding companies that qualify and elect to be financial holding companies such as the Corporation, may engage in any activity, or acquire and retain the shares of a company engaged in any activity, that is either (i) financial in nature or incidental to such financial activity (as determined by the Federal Reserve in consultation with the Secretary of the Treasury) or (ii) complementary to a financial activity and does not pose a substantial risk to the

safety and soundness of depository institutions or the financial system generally (as solely determined by the Federal Reserve), without prior approval of the Federal Reserve.

Investments, Control, and Activities. With some limited exceptions, the Bank Holding Company Act requires every bank holding company to obtain the prior approval of the Federal Reserve before acquiring another bank holding company or acquiring more than five percent of the voting shares of a bank (unless it already owns or controls the majority of such shares).

Bank holding companies are prohibited, with certain limited exceptions, from engaging in activities other than those of banking or of managing or controlling banks. They are also prohibited from acquiring or retaining direct or indirect ownership or control of voting shares or assets of any company which is not a bank or bank holding company, other than subsidiary companies furnishing services to or performing services for their subsidiaries, and other subsidiaries engaged in activities which the Federal Reserve

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determines to be so closely related to banking or managing or controlling banks as to be incidental to these operations. The Bank Holding Company Act does not place territorial restrictions on the activities of such nonbanking-related activities.

Bank holding companies which meet certain management, capital, and Community Reinvestment Act of 1977 (“CRA”) standards may elect to become a financial holding company, which would allow them to engage in a substantially broader range of nonbanking activities than is permitted for a bank holding company, including insurance underwriting and making merchant banking investments in commercial and financial companies.

The Corporation is a financial holding company (“FHC”) within the meaning of the Gramm-Leach-Bliley Financial Modernization Act of 1999 (“GLB Act”). The GLB Act restricts the business of FHC’s to financial and related activities, and provides the following:

- it allows bank holding companies that qualify as “financial holding companies” to engage in a broad range of financial and related activities;
- it allows insurers and other financial services companies to acquire banks;
- it removes various restrictions that applied to bank holding company ownership of securities firms and mutual fund advisory companies; and
- it establishes the overall regulatory structure applicable to bank holding companies that also engage in insurance and securities operations.

As a qualified FHC, the Corporation is eligible to engage in, or acquire companies engaged in, the broader range of activities that are permitted by the GLB Act. These activities include those that are determined to be “financial in nature,” including insurance underwriting, securities underwriting and dealing, and making merchant banking investments in commercial and financial companies. If any of the Corporation’s banking subsidiaries ceases to be “well capitalized” or “well managed” under applicable regulatory standards, the Federal Reserve Board may, among other things, place limitations on the Corporation’s ability to conduct these broader financial activities or, if the deficiencies persist, require the divestiture of the banking subsidiary. In addition, if any of the Corporation’s banking subsidiaries receives a rating of less than satisfactory under the CRA, the Corporation would be prohibited from engaging in any additional activities other than those permissible for bank holding companies that are not financial holding companies. The Corporation’s banking subsidiaries currently meet these capital, management and CRA requirements.

Dividends. The Federal Reserve’s policy is that a bank holding company experiencing earnings weakness should not pay cash dividends exceeding its net income or which could only be funded in ways that weaken the bank holding company’s financial health, such as by borrowing. Additionally, the Federal Reserve possesses enforcement powers over bank holding companies and their non-bank subsidiaries to prevent or remedy actions that represent unsafe or unsound practices or violations of applicable statutes and regulations. Among these powers is the ability to proscribe the payment of dividends by banks and bank holding companies.

Source of Strength. In accordance with Federal Reserve policy, the Corporation is expected to act as a source of financial strength to the Bank and Morris Plan and to commit resources to support the Bank and Morris Plan in circumstances in which the Corporation might not otherwise do so.

Sarbanes-Oxley Act of 2002. The Sarbanes-Oxley Act of 2002 (the “Sarbanes-Oxley Act”) represents a comprehensive revision of laws affecting corporate governance, accounting obligations and corporate reporting. Among other requirements, the Sarbanes-Oxley Act established: (i) requirements for audit committees of public companies, including independence and expertise standards; (ii) additional responsibilities regarding financial statements for the chief executive officers and chief financial officers of reporting companies; (iii) standards for auditors and regulation

of audits; (iv) increased disclosure and reporting obligations for reporting companies regarding various matters relating to corporate governance, and (v) new and increased civil and criminal penalties for violation of the securities laws.

The Bank and Morris Plan

General Regulatory Supervision. The Bank is a national bank organized under the laws of the United States of America and is subject to the supervision of the OCC, whose examiners conduct periodic examinations of the Bank. The Bank must undergo regular on-site examinations by the OCC and must submit quarterly and annual reports to the OCC concerning its activities and financial condition.

Morris Plan is an Indiana-chartered institution and is subject to the supervision of the FDIC and the DFI, whose examiners conduct periodic examinations of Morris Plan. Morris Plan must undergo regular on-site examinations by the FDIC and the DFI and must submit quarterly and annual reports to the FDIC and the DFI concerning its activities and financial condition.

The deposits of the Bank and Morris Plan are insured by the FDIC and are subject to the FDIC's rules and regulations respecting the insurance of deposits. See "Deposit Insurance".

Lending Limits. The total loans and extensions of credit to a borrower outstanding at one time and not fully secured may not exceed 15 percent of the bank's capital and unimpaired surplus. In addition, the total amount of outstanding loans and extensions of credit to any borrower outstanding at one time and fully secured by readily marketable collateral may not exceed 10 percent of the unimpaired capital and unimpaired surplus of the bank (this limitation is separate from and in addition to the above limitation). If a loan is secured by United States obligations, such as treasury bills, it is not subject to this legal lending limit.

Deposit Insurance. The Dodd-Frank Act has permanently increased the maximum amount of deposit insurance for financial institutions per insured depositor to \$250,000.

The deposits of the Bank and Morris Plan are insured up to the applicable limits under the Deposit Insurance Fund ("DIF"). The FDIC maintains the DIF by assessing depository institutions an insurance premium. Pursuant to the Dodd-Frank Act, the FDIC is required to set a DIF reserve ratio of 1.35% of estimated insured deposits and is required to achieve this ratio by September 30, 2020.

In connection with the Dodd-Frank Act's requirement that insurance assessments be based on assets, the FDIC bases assessments on an institution's average consolidated assets (less average tangible equity) as opposed to its deposit level. This may shift the burden of deposit premiums toward larger depository institutions which rely on funding sources other than U.S. deposits.

Under the FDIC's risk-based assessment system, insured institutions are required to pay deposit insurance premiums based on the risk that each institution poses to the DIF. An institution's risk to the DIF is measured by its regulatory capital levels, supervisory evaluations, and certain other factors. An institution's assessment rate depends upon the risk category to which it is assigned. As noted above, pursuant to the Dodd-Frank Act, the FDIC will calculate an institution's assessment level based on its total average consolidated assets during the assessment period less average tangible equity (i.e., Tier 1 capital) as opposed to an institution's deposit level which was the previous basis for calculating insurance assessments. Pursuant to the Dodd-Frank Act, institutions will be placed into one of four risk categories for purposes of determining the institution's actual assessment rate. The FDIC will determine the risk category based on the institution's capital position (well capitalized, adequately capitalized, or undercapitalized) and supervisory condition (based on exam reports and related information provided by the institution's primary federal regulator). The Bank paid a total FDIC assessment of \$895 thousand and Morris Plan paid a total FDIC assessment of \$20 thousand in 2017.

In addition to the FDIC insurance premiums, the Bank and the Morris Plan are required to make quarterly payments on bonds issued by the Financing Corporation ("FICO"), an agency of the Federal government established to recapitalize a predecessor deposit insurance fund. These assessments will continue until the FICO bonds are repaid.

Transactions with Affiliates and Insiders. Pursuant to Sections 23A and 23B of the Federal Reserve Act and Regulation W, the Bank and Morris Plan are subject to limitations on the amount of loans or extensions of credit to, or investments in, or certain other transactions with, affiliates (including the Corporation) and insiders and on the amount of advances to third parties collateralized by the securities or obligations of affiliates. Furthermore, within the

foregoing limitations as to amount, each covered transaction must meet specified collateral requirements. Compliance is also required with certain provisions designed to avoid the taking of low quality assets. The Bank and Morris Plan are also prohibited from engaging in certain transactions with certain affiliates and insiders unless the transactions are on terms substantially the same, or at least as favorable to such institution or its subsidiaries, as those prevailing at the time for comparable transactions with nonaffiliated companies.

Extensions of credit by the Bank or Morris Plan to their executive officers, directors, certain principal shareholders, and their related interests must:

- be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with third parties; and
- not involve more than the normal risk of repayment or present other unfavorable features.

The Dodd-Frank Act also included specific changes to the law related to the definition of a “covered transaction” in Sections 23A and 23B and limitations on asset purchases from insiders. With respect to the definition of a “covered transaction,” the Dodd-Frank Act now defines that term to include the acceptance of debt obligations issued by an affiliate as collateral for an institution’s

loan or extension of credit to another person or company. In addition, a “derivative transaction” with an affiliate is now deemed to be a “covered transaction” to the extent that such a transaction causes an institution or its subsidiary to have a credit exposure to the affiliate. A separate provision of the Dodd-Frank Act states that an insured depository institution may not “purchase an asset from, or sell an asset to” a bank insider (or their related interests) unless (1) the transaction is conducted on market terms between the parties and (2) if the proposed transaction represents more than 10 percent of the capital stock and surplus of the insured institution, it has been approved in advance by a majority of the institution’s non-interested directors.

Dividends. Applicable law provides that a financial institution, such as the Bank or Morris Plan, may pay dividends from its undivided profits in an amount declared by its Board of Directors, subject to prior regulatory approval if the proposed dividend, when added to all prior dividends declared during the current calendar year, would be greater than the current year's net income and retained earnings for the previous two calendar years.

Federal law generally prohibits the Bank or Morris Plan from paying a dividend to the Corporation if it would thereafter be undercapitalized. The FDIC may prevent a financial institution from paying dividends if it is in default of payment of any assessment due to the FDIC. In addition, payment of dividends by a bank may be prevented by the applicable federal regulatory authority if such payment is determined, by reason of the financial condition of such bank, to be an unsafe and unsound banking practice.

Community Reinvestment Act. The CRA requires that the federal banking regulators evaluate the records of a financial institution in meeting the credit needs of its local community, including low and moderate income neighborhoods. These factors are also considered in evaluating mergers, acquisitions, and applications to open a branch or facility. Failure to adequately meet these criteria could result in the imposition of additional requirements and limitations on the Bank or on Morris Plan.

Interest Rate and Market Risk. The federal bank regulators also have issued a joint policy statement to provide guidance on sound practices for managing interest rate risk. The statement sets forth the factors the federal regulatory examiners will use to determine the adequacy of a bank's capital for interest rate risk. These qualitative factors include the adequacy and effectiveness of the bank's internal interest rate risk management process and the level of interest rate exposure. Other qualitative factors that will be considered include the size of the bank, the nature and complexity of its activities, the adequacy of its capital and earnings in relation to the bank's overall risk profile, and its earning exposure to interest rate movements. The interagency supervisory policy statement describes the responsibilities of a bank's board of directors in implementing a risk management process and the requirements of the bank's senior management in ensuring the effective management of interest rate risk. Further, the statement specifies the elements that a risk management process must contain.

The federal banking regulators have also issued regulations revising the risk-based capital standards to include a supervisory framework for measuring market risk. The effect of these regulations is that any bank holding company or bank which has significant exposure to market risk must measure such risk using its own internal model, subject to the requirements contained in the regulations, and must maintain adequate capital to support that exposure. These regulations apply to any bank holding company or bank whose trading activity equals 10% or more of its total assets, or whose trading activity equals \$1 billion or more. Examiners may require a bank holding company or bank that does not meet the applicability criteria to comply with the capital requirements if necessary for safety and soundness purposes. These regulations contain supplemental rules to determine qualifying and excess capital, calculate risk-weighted assets, calculate market risk-equivalent assets and calculate risk-based capital ratios adjusted for market risk.

Prompt Corrective Action. The Federal Deposit Insurance Act, as amended (“FDIA”), requires among other things, the federal banking agencies to take “prompt corrective action” in respect of depository institutions that do not meet

minimum capital requirements. The FDIA includes the following five capital tiers: “well capitalized,” “adequately capitalized,” “undercapitalized,” “significantly undercapitalized” and “critically undercapitalized.” A depository institution’s capital tier will depend upon how its capital levels compare with various relevant capital measures and certain other factors, as established by regulation. The relevant capital measures are the total risk-based capital ratio, the Tier 1 risk-based capital ratio, the common equity Tier 1 risk-based capital ratio and the leverage ratio.

A bank will be (i) “well capitalized” if the institution has a total risk-based capital ratio of 10.0% or greater, a Tier 1 risk-based capital ratio of 8.0% or greater, a common equity tier 1 risk-based capital ratio of 6.5% or greater and a leverage ratio of 5.0% or greater, and is not subject to any order or written directive by any such regulatory authority to meet and maintain a specific capital level for any capital measure; (ii) “adequately capitalized” if the institution has a total risk-based capital ratio of 8.0% or greater, a Tier 1 risk-based capital ratio of 6.0% or greater, a common equity Tier 1 risk-based capital ratio of 4.5% or greater and a leverage ratio of 4.0% or greater and is not “well capitalized”; (iii) “undercapitalized” if the institution has a total risk-based capital ratio that is less than 8.0%, a Tier 1 risk-based capital ratio of less than 6.0%, a common equity Tier 1 risk-based capital ratio of 4.5%, or a leverage ratio of less than 4.0%; (iv) “significantly undercapitalized” if the institution has a total risk-based capital ratio of less than 6.0%, a Tier 1 risk-based capital ratio of less than 4.5%, a common equity Tier 1 risk-based capital ratio of less than

3.0%, or a leverage ratio of less than 3.0%; and (v) “critically undercapitalized” if the institution’s tangible equity is equal to or less than 2.0% of average quarterly tangible assets. An institution may be downgraded to, or deemed to be in, a capital category that is lower than indicated by its capital ratios if it is determined to be in an unsafe or unsound condition or if it receives an unsatisfactory examination rating with respect to certain matters. A bank’s capital category is determined solely for the purpose of applying prompt corrective action regulations, and the capital category may not constitute an accurate representation of the bank’s overall financial condition or prospects for other purposes.

The FDIA generally prohibits a depository institution from making any capital distributions (including payment of a dividend) or paying any management fee to its parent holding company if the depository institution would thereafter be “undercapitalized.” “Undercapitalized” institutions are subject to growth limitations and are required to submit a capital restoration plan. The agencies may not accept such a plan without determining, among other things, that the plan is based on realistic assumptions and is likely to succeed in restoring the depository institution’s capital. In addition, for a capital restoration plan to be acceptable, the depository institution’s parent holding company must guarantee that the institution will comply with such capital restoration plan. The bank holding company must also provide appropriate assurances of performance. The aggregate liability of the parent holding company is limited to the lesser of (i) an amount equal to 5.0% of the depository institution’s total assets at the time it became undercapitalized and (ii) the amount which is necessary (or would have been necessary) to bring the institution into compliance with all capital standards applicable with respect to such institution as of the time it fails to comply with the plan. If a depository institution fails to submit an acceptable plan, it is treated as if it is “significantly undercapitalized.”

“Significantly undercapitalized” depository institutions may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become “adequately capitalized,” requirements to reduce total assets, and cessation of receipt of deposits from correspondent banks. “Critically undercapitalized” institutions are subject to the appointment of a receiver or conservator.

The appropriate federal banking agency may, under certain circumstances, reclassify a well-capitalized insured depository institution as adequately capitalized. The FDIA provides that an institution may be reclassified if the appropriate federal banking agency determines (after notice and opportunity for hearing) that the institution is in an unsafe or unsound condition or deems the institution to be engaging in an unsafe or unsound practice.

The appropriate agency is also permitted to require an adequately capitalized or undercapitalized institution to comply with the supervisory provisions as if the institution were in the next lower category (but not treat a significantly undercapitalized institution as critically undercapitalized) based on supervisory information other than the capital levels of the institution.

The Corporation believes that, as of December 31, 2017, the Bank and Morris Plan were each “well capitalized” based on the aforementioned ratios.

Incentive Compensation. The Dodd-Frank Act requires the federal bank regulatory agencies and the SEC to establish joint regulations or guidelines prohibiting incentive-based payment arrangements at specified regulated entities, such as the Corporation and the Bank, having at least \$1 billion in total assets that encourage inappropriate risks by providing an executive officer, employee, director or principal shareholder with excessive compensation, fees, or benefits or that could lead to material financial loss to the entity. In addition, these regulators must establish regulations or guidelines requiring enhanced disclosure to regulators of incentive-based compensation arrangements. The agencies proposed such regulations in April 2011, but the regulations have not been finalized. If the regulations are adopted in the form initially proposed, they will impose limitations on the manner in which the Corporation may structure compensation for its executives.

The Federal Reserve Board, OCC and FDIC have issued a comprehensive final guidance on incentive compensation policies intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. The guidance, which covers all employees that have the ability to materially affect the risk profile of an organization, either individually or as part of a group, is based upon the key principles that a banking organization's incentive compensation arrangements should (i) provide incentives that do not encourage risk-taking beyond the organization's ability to effectively identify and manage risks, (ii) be compatible with effective internal controls and risk management, and (iii) be supported by strong corporate governance, including active and effective oversight by the organization's board of directors. These three principles are incorporated into the proposed joint compensation regulations under the Dodd-Frank Act, discussed above.

The Federal Reserve Board will review, as part of the regular, risk-focused examination process, the incentive compensation arrangements of banking organizations, such as the Corporation, that are not "large, complex banking organizations." These reviews will be tailored to each organization based on the scope and complexity of the organization's activities and the prevalence of

incentive compensation arrangements. The findings of the supervisory initiatives will be included in reports of examination. Deficiencies will be incorporated into the organization's supervisory ratings, which can affect the organization's ability to make acquisitions and take other actions. Enforcement actions may be taken against a banking organization if its incentive compensation arrangements, or related risk-management control or governance processes, pose a risk to the organization's safety and soundness and the organization is not taking prompt and effective measures to correct the deficiencies.

Ability-to-Repay Requirement and Qualified Mortgage Rule. The Dodd-Frank Act contains additional provisions that affect consumer mortgage lending. First, it significantly expands underwriting requirements applicable to loans secured by 1-4 family residential real property and augments federal law combating predatory lending practices. In addition to numerous new disclosure requirements, the Dodd-Frank Act imposes new standards for mortgage loan originations on all lenders, including banks and savings associations, in an effort to encourage lenders to verify a borrower's ability to repay, while also establishing a presumption of compliance for certain "qualified mortgages." Most significantly, the new standards limit the total points and fees that the Bank and/or a broker may charge on conforming and jumbo loans to 3% of the total loan amount.

The CFPB has issued a final rule that implements the Dodd-Frank Act's ability-to-repay requirements, and clarifies the presumption of compliance for "qualified mortgages." Further, the final rule also clarifies that qualified mortgages do not include "no-doc" loans and loans with negative amortization, interest-only payments, balloon payments, terms in excess of 30 years, or points and fees paid by the borrower that exceed 3% of the loan amount, subject to certain exceptions. In addition, for qualified mortgages, the monthly payment must be calculated on the highest payment that will occur in the first five years of the loan, and the borrower's total debt-to-income ratio generally may not be more than 43%. The final rule also provides that certain mortgages that satisfy the general product feature requirements for qualified mortgages and that also satisfy the underwriting requirements of Fannie Mae and Freddie Mac (while they operate under federal conservatorship or receivership) or the U.S. Department of Housing and Urban Development, Department of Veterans Affairs, or Department of Agriculture or Rural Housing Service are also considered to be qualified mortgages. This second category of qualified mortgages will phase out as the aforementioned federal agencies issue their own rules regarding qualified mortgages, the conservatorship of Fannie Mae and Freddie Mac ends, and, in any event, after seven years.

As set forth in the Dodd-Frank Act, subprime (or higher-priced) mortgage loans are subject to the ability-to-repay requirement, and the final rule provides for a rebuttable presumption of lender compliance for those loans. The final rule also applies the ability-to-repay requirement to prime loans, while also providing a conclusive presumption of compliance (i.e., a safe harbor) for prime loans that are also qualified mortgages. Additionally, the final rule generally prohibits prepayment penalties (subject to certain exceptions) and sets forth a 3-year record retention period with respect to documenting and demonstrating the ability-to-repay requirement and other provisions.

USA Patriot Act. The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "USA Patriot Act") is intended to strengthen the ability of U.S. Law Enforcement to combat terrorism on a variety of fronts. The potential impact of the USA Patriot Act on financial institutions is significant and wide-ranging. The USA Patriot Act contains sweeping anti-money laundering and financial transparency laws and requires financial institutions to implement additional policies and procedures with respect to, or additional measures designed to address, any or all of the following matters, among others: money laundering and currency crimes, customer identification verification, cooperation among financial institutions, suspicious activities and currency transaction reporting.

S.A.F.E. Act Requirements. Regulations issued under the Secure and Fair Enforcement for Mortgage Licensing Act of 2008 (the "S.A.F.E. Act") require residential mortgage loan originators who are employees of institutions regulated by the foregoing agencies, including national banks, to meet the registration requirements of the S.A.F.E. Act. The

S.A.F.E. Act requires residential mortgage loan originators who are employees of regulated financial institutions to be registered with the Nationwide Mortgage Licensing System and Registry, a database created by the Conference of State Bank Supervisors and the American Association of Residential Mortgage Regulators to support the licensing of mortgage loan originators by the states. Employees of regulated financial institutions are generally prohibited from originating residential mortgage loans unless they are registered.

Other Regulations

Federal law extensively regulates other various aspects of the banking business such as reserve requirements. Current federal law also requires banks, among other things to make deposited funds available within specified time periods. In addition, with certain exceptions, a bank and a subsidiary may not extend credit, lease or sell property or furnish any services or fix or vary the consideration for the foregoing on the condition that (i) the customer must obtain or provide some additional credit, property or services from, or to, any of them, or (ii) the customer may not obtain some other credit, property or service from a competitor, except to the extent reasonable conditions are imposed to assure the soundness of credit extended.

Interest and other charges collected or contracted by the Bank or Morris Plan are subject to state usury laws and federal laws concerning interest rates. The loan operations are also subject to federal and state laws applicable to credit transactions, such as the:

- Truth-In-Lending Act and state consumer protection laws governing disclosures of credit terms and prohibiting certain practices with regard to consumer borrowers;
- Home Mortgage Disclosure Act of 1975, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;
- Equal Credit Opportunity Act and other fair lending laws, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;
- Fair Credit Reporting Act of 1978 and Fair and Accurate Credit Transactions Act of 2003, governing the use and provision of information to credit reporting agencies;
- Fair Debt Collection Practices Act, governing the manner in which consumer debts may be collected by collection agencies; and rules and regulations of the various federal agencies charged with the responsibility of implementing such federal laws.

The deposit operations also are subject to the:

Customer Information Security Guidelines. The federal bank regulatory agencies have adopted final guidelines (the "Guidelines") for safeguarding confidential customer information. The Guidelines require each financial institution, under the supervision and ongoing oversight of its Board of Directors, to create a comprehensive written information security program designed to ensure the security and confidentiality of customer information, protect against any anticipated threats or hazards to the security or integrity of such information; protect against unauthorized access to or use of such information that could result in substantial harm or inconvenience to any customer; and implement response programs for security breaches.

Electronic Funds Transfer Act and Regulation E. The Electronic Funds Transfer Act, which is implemented by Regulation E, governs automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking service.

Gramm-Leach-Bliley Act, Fair and Accurate Credit Transactions Act. The Gramm-Leach-Bliley Act, the Fair and Accurate Credit Transactions Act, and the implementing regulations govern consumer financial privacy, provide disclosure requirements and restrict the sharing of certain consumer financial information with other parties.

The federal banking agencies have established guidelines which prescribe standards for depository institutions relating to internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, asset quality, earnings, compensation fees and benefits, and management compensation. The agencies may require an institution which fails to meet the standards set forth in the guidelines to submit a compliance plan. Failure to submit an acceptable plan or adhere to an accepted plan may be grounds for further enforcement action.

As noted above, the new Bureau of Consumer Financial Protection has authority for amending existing consumer compliance regulations and implementing new such regulations. In addition, the Bureau has the power to examine the compliance of financial institutions with an excess of \$10 billion in assets with these consumer protection rules. The Bank's and Morris Plan's compliance with consumer protection rules will be examined by the OCC and the FDIC, respectively, since neither the Bank nor Morris Plan meet this \$10 billion asset level threshold.

Enforcement Powers. Federal regulatory agencies may assess civil and criminal penalties against depository institutions and certain "institution-affiliated parties", including management, employees, and agents of a financial institution, as well as independent contractors and consultants such as attorneys and accountants and others who

participate in the conduct of the financial institution's affairs.

In addition, regulators may commence enforcement actions against institutions and institution-affiliated parties. Possible enforcement actions include the termination of deposit insurance. Furthermore, regulators may issue cease-and-desist orders to, among other things, require affirmative action to correct any harm resulting from a violation or practice, including restitution, reimbursement, indemnifications or guarantees against loss. A financial institution may also be ordered to restrict its growth, dispose of certain assets, rescind agreements or contracts, or take other actions as determined by the regulator to be appropriate.

Effect of Governmental Monetary Policies. The Corporation's earnings are affected by domestic economic conditions and the monetary and fiscal policies of the United States government and its agencies. The Federal Reserve Bank's monetary policies have had, and are likely to continue to have, an important impact on the operating results of commercial banks through its power

to implement national monetary policy in order, among other things, to curb inflation or combat a recession. The monetary policies of the Federal Reserve have major effects upon the levels of bank loans, investments and deposits through its open market operations in United States government securities and through its regulation of the discount rate on borrowings of member banks and the reserve requirements against member bank deposits. It is not possible to predict the nature or impact of future changes in monetary and fiscal policies.

Available Information

The Corporation files annual reports on Form 10-K, quarterly reports on Form 10-Q, proxy statements and other information with the Securities and Exchange Commission. Such reports, proxy statements and other information can be read and copied at the public reference facilities maintained by the Securities and Exchange Commission at the Public Reference Room, 100 F Street, NE, Washington, D.C. 20549. Information regarding the operation of the Public Reference Room may be obtained by calling the Securities and Exchange Commission at 1-800-SEC-0330. The Securities and Exchange Commission maintains a web site (<http://www.sec.gov>) that contains reports, proxy statements, and other information. The Corporation's filings are also accessible at no cost on the Corporation's website at www.first-online.com.

ITEM 1A. RISK FACTORS

An investment in the Corporation's common stock is subject to risks inherent to the Corporation's business. The material risks and uncertainties that management believes affect the Corporation are described below. Before making an investment decision, you should carefully consider the risks and uncertainties described below together with all of the other information included or incorporated by reference in this report. The risks and uncertainties described below are not the only ones facing the Corporation. Additional risks and uncertainties that management is not aware of or focused on or that management currently deems immaterial may also impair the Corporation's business operations. This report is qualified in its entirety by these risk factors.

If any of the following risks actually occur, the Corporation's business, financial condition and results of operations could be materially and adversely affected. If this were to happen, the market price of the Corporation's common stock could decline significantly, and you could lose all or part of your investment.

Risks Related to the Corporation's Business

Economic conditions in the capital markets and the economy generally may materially adversely affect the Corporation's business and results of operations

The Corporation's financial performance generally, and in particular the ability of borrowers to pay interest on and repay principal of outstanding loans and the value of collateral securing those loans, as well as demand for loans and other products and services that the Corporation offers, is highly dependent upon the business environment in the markets where the Corporation operates and in the United States as a whole. The U.S. economy experienced growth during 2017, with increasing exports, jobs, and manufacturing production. Real GDP has increased, and unemployment is in line with a full-employment economy. However, if tighter financial conditions emerge, along with additional rate hikes by the Federal Reserve, there can be no assurance that the economy will not enter into another recession, whether in the near term or long term. An economic downturn or sustained, high unemployment levels, and stock market volatility may negatively impact our operating results and have a negative effect on the ability of our borrowers to make timely repayments of their loans (thereby, increasing the risk of loan defaults and losses), the value of collateral securing those loans, and demand for loans and other products and services that the Corporation offers.

The Basel III capital rules may require us to retain higher capital levels, impacting our ability to pay dividends, repurchase our stock, or pay discretionary bonuses.

The Federal Reserve, the FDIC and the OCC have adopted final rules for the Basel III capital framework which became effective on January 1, 2015. These rules substantially amended the regulatory risk-based capital rules formerly applicable to the Corporation and its banking subsidiaries. The rules phase in over time beginning in 2015 and will become fully effective in 2019. The rules provide for minimum capital ratios of (i) common equity Tier 1 risk-weighted capital ratio of 4.5%, (ii) Tier 1 risk-based capital ratio (common Tier 1 capital plus Additional Tier 1 capital) of 6%, and (iii) total risk-based capital ratio of 8% (the current requirement). Beginning in 2016, a capital conservation buffer will phase in over three years, ultimately resulting in a requirement of 2.5% on top of the common Tier 1, Tier 1 and total capital requirements, resulting in a required common equity Tier 1 risk-based ratio of 7%, a Tier 1 risk-based ratio of 8.5%, and a total risk-based capital ratio of 10.5%. Failure to satisfy any of these three capital requirements will result in limits on paying dividends, engaging in share repurchases and paying discretionary bonuses. These limitations will establish a maximum percentage of eligible retained income that could be utilized for such actions.

The geographic concentration of the Corporation's markets makes the Corporation's business highly susceptible to local economic conditions

Unlike larger banking organizations that are more geographically diversified, the Corporation's operations are currently concentrated in west central Indiana and east central Illinois. As a result of this geographic concentration, the Corporation's financial results depend largely upon economic conditions in these market areas. Deterioration in economic conditions in the Corporation's market could result in one or more of the following:

- an increase in loan delinquencies;
- an increase in problem assets and foreclosures;
- a decrease in the demand for the Corporation's products and services; and
- a decrease in the value of collateral for loans, especially real estate, in turn reducing customers' borrowing power, the value of assets associated with problem loans and collateral coverage.

The Corporation operates in a highly competitive industry and market area

The Corporation faces substantial competition in all areas of its operations from a variety of different competitors, many of which are larger and may have more financial resources. Such competitors include banks and many other types of financial institutions, including, without limitation, savings and loan associations, credit unions, finance companies, brokerage firms, insurance companies, factoring companies, financial technology companies, and other financial intermediaries. The financial services industry could become even more competitive as a result of legislative, regulatory and technological changes and continued consolidation. Banks, securities firms and insurance companies can merge under the umbrella of a financial holding company, which can offer virtually any type of financial service, including banking, securities underwriting, insurance (both agency and underwriting) and merchant banking. Also, technology has lowered barriers to entry and made it possible for non-banks to offer products and services traditionally provided by banks, such as automatic transfer and automatic payment systems. Many of the Corporation's competitors have fewer regulatory constraints and may have lower cost structures. Additionally, due to their size, many competitors may be able to achieve economies of scale and, as a result, may offer a broader range of products and services as well as better pricing for those products and services than the Corporation can.

The Corporation's ability to compete successfully depends on a number of factors, including, among other things:

- the ability to develop, maintain and build upon long-term customer relationships based on top quality service, and safe, sound assets;
- the ability to expand the Corporation's market position;
- the scope, relevance and pricing of products and services offered to meet customer needs and demands;
- the rate at which the Corporation introduces new products and services relative to its competitors;
- customer satisfaction with the Corporation's level of service; and
- industry and general economic trends.

Failure to perform in any of these areas could significantly weaken the Corporation's competitive position, which could adversely affect the Corporation's growth and profitability, which, in turn, could have a material adverse effect on the Corporation's financial condition and results of operations.

The Corporation's success depends on our ability to respond to the threats and opportunities of financial technology innovation and adapt to changes in the regulatory landscape.

Financial technology (“FinTech”), a broad category referring to technological innovation in the design and delivery of financial services and products, has the potential to disrupt the financial industry and change the way financial institutions, including the Corporation and the Bank, do business. Investment in new technology to stay competitive may result in significant costs and increased risks of cyber security attacks. Our success depends on our ability to adapt to the pace of the rapidly changing technological environment, which is crucial to retention and acquisition of customers. In December 2016 the former Comptroller of the Currency Thomas Curry announced an initiative for the Office of the Comptroller of the Currency (“OCC”) to consider applications from FinTech companies to become special purpose national banks. The proposed federal charter would largely allow FinTech companies to operate nationwide under a single set of national standards, without needing to seek state-by-state licenses or joining with brick-and-mortar banks, and may therefore allow FinTech companies to more easily compete with us for financial products and services in the communities we serve. The OCC’s initiative has been met with criticism, including opposition from state regulators. Since announcing its initiative, the OCC has solicited public comment and continues to evaluate the benefits and risks of the initiative. On November 27, 2017, Joseph M. Otting was sworn in as Comptroller of the Currency. Public comments

from Comptroller Otting have indicated that he supports continued evaluation of the FinTech-charter initiative. At this point, however, it is unclear when and if the OCC will consider (and/or approve) applications from FinTech companies to become special purpose national banks and, in such event, what form such charters will take. In the event the OCC adopts such initiative, our business may be adversely affected due to increased competition.

Moreover, on January 30, 2018, the United States House of Representatives Committee on Financial Services - Financial Institutions and Consumer Credit Subcommittee held a hearing to examine the current FinTech marketplace, focusing on the current regulatory landscape and the need to amend or modernize the regulatory landscape or the necessity to amend existing financial laws or develop new legislative proposals that would allow financial services entities to use FinTech to deliver new products and services to consumers. We cannot predict whether changes will be made to the current regulatory landscape or what impact any such changes, if any, will have on us. However, the costs of complying with any additional or amended legislation could have a material adverse effect on the Corporation's financial condition and results of operations.

The Corporation is dependent on certain key management and staff

The Corporation relies on key personnel to manage and operate its business. The loss of key staff may adversely affect the Corporation's ability to maintain and manage these portfolios effectively, which could negatively affect the Corporation's revenues. In addition, loss of key personnel could result in increased recruiting and hiring expenses, which could cause a decrease in the Corporation's net income.

Current legislation and potential further financial regulatory reforms could have a significant impact on our business, financial condition and results of operations

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), enacted in July 2010, instituted major changes to the banking and financial institutions regulatory regimes in light of performance of and government intervention in the financial services sector arising out of or related to the 2007-2008 financial crisis. Many aspects of the Dodd-Frank Act are subject to rulemaking and will take effect over several years, making it difficult to anticipate the overall financial impact on the Corporation. The changes resulting from the Dodd-Frank Act will impose more stringent capital, liquidity and leverage requirements and may impact the profitability of business activities, require changes to certain business practices, or otherwise adversely affect the Corporation's business.

Further, the Corporation may be required to invest significant management attention and resources to evaluate and make any changes necessary to comply with new statutory and regulatory requirements under the Dodd-Frank Act, which may negatively impact results of operations and financial condition. Congress and federal regulatory agencies continually review banking laws, regulations and policies for possible changes. Changes to statutes, regulations or regulatory policies, including changes in interpretation or implementation of statutes, regulations or policies, could affect the Corporation in substantial and unpredictable ways. Such changes could subject the Corporation to additional costs, limit the types of financial services and products the Corporation may offer and/or increase the ability of non-banks to offer competing financial services and products, among other things.

The Corporation cannot predict whether there will be additional proposed laws or reforms that would affect the U.S. financial system or financial institutions, whether or when such changes may be adopted, how such changes may be interpreted and enforced or how such changes may impact the Corporation's financial condition and results of operations. However, the costs of complying with any additional laws or regulations could have a material adverse effect on the Corporation's financial condition and results of operations.

The Corporation is subject to extensive government regulation and supervision

The Corporation, primarily through the Bank and Morris Plan, is subject to extensive federal regulation and supervision. Banking regulations are primarily intended to protect depositors' funds, federal deposit insurance funds and the banking system as a whole, not shareholders. These regulations affect the Corporation's lending practices, capital structure, investment practices, and growth, among other things. Failure to comply with laws, regulations or policies could result in sanctions by regulatory agencies, civil money penalties and/or reputation damage, which could have a material adverse effect on the Corporation's business, financial condition and results of operations. While the Corporation has policies and procedures designed to prevent any such violations, there can be no assurance that such violations will not occur.

Tax reform could adversely affect our business.

On December 22, 2017, H.R. 1- An Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018, commonly known as the Tax Cuts and Jobs Act (the "Tax Act"), was signed into law. The Tax Act makes substantial changes to the Internal Revenue Code, the full effect of which cannot be currently anticipated. For example, the Tax Act reduces the corporate income tax rate from 35% to 21% for tax years beginning after December 31, 2017, limits the deduction for interest expense, modifies expensing of capital investment, and makes several other changes to business-related exclusions, deductions, and credits, which may have a positive or negative affect on our business. Notwithstanding the reduction in the corporate income tax rate, the overall impact of the Tax Act is uncertain and could adversely affect our business and financial condition. Further, many of the provisions of the Tax Act will require guidance through the issuance of regulations and other tax guidance (such as revenue rulings, revenue procedures, notices, and announcements) by the Internal Revenue Service in order to assess their effect. There may be a substantial delay before such regulations are promulgated or guidance is issued, increasing the uncertainty as to the ultimate effect of the Tax Act on us. Moreover, at this point, it is unclear how States will respond to the Tax Act and if state-level tax reform will be enacted by any States and, if so, what form such state-level tax reform will take and when such state-level tax reform will be enacted.

The Corporation is still in the process of analyzing the Tax Act and its possible effects on the Corporation. Additionally, the implementation by us of new practices and processes designed to comply with, and benefit from, the Tax Act and its rules and regulations could require us to make substantial changes to our business practices, allocate additional resources, and increase our costs, which could negatively affect our business, results of operations, and financial condition. The intended and unintended consequences of Tax Act on our business and our holders of common stock at this time are uncertain and could be adverse.

The Corporation is subject to lending risk

There are inherent risks associated with the Corporation's lending activities. These risks include, among other things, the impact of changes in interest rates and changes in the economic conditions in the markets where the Corporation operates as well as those across Indiana, Illinois and the United States. Increases in interest rates and/or weakening economic conditions could adversely impact the ability of borrowers to repay outstanding loans or the value of the collateral securing these loans.

The Corporation originates commercial real estate loans, commercial loans, consumer loans and residential real estate loans primarily within its market areas. Commercial real estate, commercial, and consumer loans may expose a lender to greater credit risk than loans secured by residential real estate because the collateral securing these loans may not be sold as easily as residential real estate. The Corporation is also subject to various laws and regulations that affect its lending activities. Failure to comply with applicable laws and regulations could subject the Corporation to regulatory enforcement action that could result in the assessment of significant civil money penalties against the Corporation.

The Corporation's allowance for loan losses may be insufficient

The Corporation maintains an allowance for loan losses, which is a reserve established through a provision for loan losses charged to expense, that represents management's best estimate of probable incurred losses that are inherent within the existing portfolio of loans. The level of the allowance reflects management's continuing evaluation of industry concentrations; specific credit risks; loan loss experience; current loan portfolio quality; present economic, political and regulatory conditions and unidentified losses inherent in the current loan portfolio. The determination of the appropriate level of the allowance for loan losses inherently involves a high degree of subjectivity and requires the Corporation to make significant estimates of current credit risks and future trends, all of which may undergo material changes. Changes in economic conditions affecting borrowers, new information regarding existing loans,

identification of additional problem loans and other factors, both within and outside of the Corporation's control, may require an increase in the allowance for loan losses. In addition, bank regulatory agencies periodically review the Corporation's allowance for loan losses and may require an increase in the provision for loan losses or the recognition of further loan charge-offs, based on judgments different than those of management. If charge-offs in future periods exceed the allowance for loan losses, the Corporation will need additional provisions to increase the allowance for loan losses. Any increases in the allowance for loan losses will result in a decrease in net income and, possibly, capital, and may have a material adverse effect on the Corporation's financial condition and results of operations.

The Corporation may foreclose on collateral property and would be subject to the increased costs associated with ownership of real property, resulting in reduced revenues and earnings

The Corporation forecloses on collateral property from time to time to protect its investment and thereafter owns and operates such property, in which case it is exposed to the risks inherent in the ownership of real estate. The amount that the Corporation, as a mortgagee, may realize after a default is dependent upon factors outside of its control, including, but not limited to: (i) general

or local economic conditions; (ii) neighborhood values; (iii) interest rates; (iv) real estate tax rates; (v) operating expenses of the mortgaged properties; (vi) environmental remediation liabilities; (vii) ability to obtain and maintain adequate occupancy of the properties; (viii) zoning laws; (ix) governmental rules, regulations and fiscal policies; and (x) natural disasters. Certain expenditures associated with the ownership of real estate, principally real estate taxes, insurance, and maintenance costs, may adversely affect the income from the real estate. Therefore, the cost of operating real property may exceed the income earned from such property, and the Corporation may have to advance funds in order to protect its investment, or it may be required to dispose of the real property at a loss. These expenditures and costs could adversely affect the Corporation's ability to generate revenues, resulting in reduced levels of profitability.

The Corporation is subject to environmental liability risk associated with lending activities

A significant portion of the Corporation's loan portfolio is secured by real property. During the ordinary course of business, the Corporation may foreclose on and take title to properties securing certain loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous or toxic substances are found, the Corporation may be liable for remediation costs, as well as for personal injury and property damage. Environmental laws may require the Corporation to incur substantial expenses and may materially reduce the affected property's value or limit the Corporation's ability to use or sell the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase the Corporation's exposure to environmental liability. Environmental reviews of real property before initiating foreclosure actions may not be sufficient to detect all potential environmental hazards. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on the Corporation's business, financial condition and results of operations.

The Corporation is subject to interest rate risk

The Corporation's earnings and cash flows are largely dependent upon the Corporation's net interest income. Net interest income is the difference between interest income earned on interest earning assets such as loans and securities and interest expense paid on interest bearing liabilities such as deposits and borrowed funds. Interest rates are highly sensitive to many factors that are beyond the Corporation's control, including general economic conditions and policies of various governmental and regulatory agencies. Changes in monetary policy, including changes in interest rates, could influence not only the interest that is received on loans and securities and the interest that is paid on deposits and borrowings, but such changes could also affect (i) the Corporation's ability to originate loans and obtain deposits, and (ii) the fair value of the Corporation's financial assets and liabilities. Currently, the Corporation is in an asset-sensitive position. In a rising interest rate environment, the Corporation may be unable to sell its lower-yielding mortgage loans, thus impacting its ability to generate higher yielding loans which could adversely impact earnings.

For several years prior to December 2015, the Federal Open Market Committee ("FOMC") kept the target federal funds rate between 0% and 0.25%. In December 2015, the FOMC increased the target federal funds rate by 25 basis points, representing the first increase in nearly a decade. In December 2016, the FOMC increased the target federal funds rate by another 25 basis points. The FOMC increased the target federal funds rate by 25 basis points in each of March, June, and December 2017. Based on comments made by the FOMC, we expect gradual increases during 2018, but the overall low interest rate environment is expected to continue in 2018. The extended low interest rate environment has compressed our net interest spread and reduced our spread-based revenues, which has had, and continues to have, an adverse impact on our revenue and results of operations.

Uncertainty about the future of the London Inter-Bank Offered Rate ("LIBOR"), and its accepted alternatives, may adversely affect our business.

The Corporation and its subsidiaries hold certain financial instruments which have an interest rate indexed to LIBOR. On July 27, 2017, the Chief Executive of the United Kingdom Financial Conduct Authority, which regulates LIBOR, announced that it intends to stop persuading or compelling banks to submit rates for the calculation of LIBOR to the administrator of LIBOR after 2021. The announcement indicates that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. It is impossible to predict whether and to what extent banks will continue to provide LIBOR submissions to the administrator of LIBOR or whether any additional reforms to LIBOR may be enacted in the United Kingdom or elsewhere. At this time, no consensus exists as to what rate or rates may become accepted alternatives to LIBOR and it is impossible to predict the effect of any such alternatives on the value of LIBOR-based financial instruments given LIBOR's role in determining market interest rates globally.

In June 2017, the Alternative Reference Rate Committee ("ARRC"), a committee of private-market derivative participants and their regulators convened by the Federal Reserve to identify alternative reference interest rates, announced a Secured Overnight Funding Rate ("SOFR"), a broad Treasuries overnight repurchase agreement (repo) financing rate, as its preferred alternative to

U.S. dollar LIBOR. In December 2017, the Federal Reserve announced final plans for the production of SOFR. It is presently anticipated that SOFR will be published by the Federal Reserve Bank of New York, in cooperation with the Office of Financial Research, beginning in the second quarter of 2018. Plans for alternative reference rates for other currencies have also been announced.

Uncertainty as to the nature of alternative reference rates and as to potential changes or other reforms to LIBOR may adversely affect LIBOR rates and interest rates indexed to LIBOR, as well as other interest rates. At this time, it is not possible to predict how markets will respond to these alternative reference rates, and the effect of any changes or reforms to LIBOR or discontinuation of LIBOR on new or existing financial instruments to which we have exposure. If LIBOR ceases to exist, or if the methods of calculating LIBOR change from current methods for any reason, interest rates on financial instruments whose value is tied to LIBOR may be adversely affected. The manner and impact of this transition and related developments, as well as the effect of these developments on our funding costs, investment and trading securities portfolios, and business, is uncertain and may be materially adverse to our profitability.

The Corporation's accounting estimates and risk management processes rely on analytical and forecasting models

The processes the Corporation uses to estimate its probable loan losses and to measure the fair value of financial instruments, as well as the processes used to estimate the effects of changing interest rates and other market measures on the Corporation's financial condition and results of operations, depends upon the use of analytical and forecasting models. These models reflect assumptions that may not be accurate, particularly in times of market stress or other unforeseen circumstances. Even if these assumptions are adequate, the models may prove to be inadequate or inaccurate because of other flaws in their design or their implementation. If the models the Corporation uses for interest rate risk and asset-liability management are inadequate, the Corporation may incur increased or unexpected losses upon changes in market interest rates or other market measures. If the models the Corporation uses for determining its probable loan losses are inadequate, the allowance for loan losses may not be sufficient to support future charge-offs. If the models the Corporation uses to measure the fair value financial instruments are inadequate, the fair value of such financial instruments may fluctuate unexpectedly or may not accurately reflect what the Corporation could realize upon sale or settlement of such financial instruments. Any such failure in the Corporation's analytical or forecasting models could have a material adverse effect on the Corporation's business, financial condition and results of operations.

The Corporation's earnings could be adversely impacted by incidences of fraud and compliance failure

The Corporation's internal operations are subject to certain risks, including but not limited to, data processing system failures and errors, customer or employee fraud and catastrophic failures resulting from terrorist acts or natural disasters. Operational risk resulting from inadequate or failed internal processes, people, and systems includes the risk of fraud by employees or persons outside of our company, the execution of unauthorized transactions by employees, errors relating to transaction processing and systems, and breaches of the internal control system and compliance requirements. This risk of loss also includes potential legal actions that could arise as a result of the operational deficiency or as a result of noncompliance with applicable regulatory standards. The Corporation's internal controls, disclosure controls and procedures, and corporate governance policies and procedures are based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of the Corporation's controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on the Corporation's business, financial condition and results of operations.

Risks associated with cyber-security could negatively affect our earnings

The financial services industry has experienced an increase in both the number and severity of reported cyber attacks aimed at gaining unauthorized access to bank systems as a way to misappropriate assets and sensitive information, corrupt and destroy data, or cause operational disruptions. We have established policies and procedures to prevent or limit the impact of security breaches, but such events may still occur or may not be adequately addressed if they do occur. Although we rely on security safeguards to secure our data, these safeguards may not fully protect our systems from compromises or breaches.

We also rely on the integrity and security of a variety of third party processors, payment, clearing and settlement systems, as well as the various participants involved in these systems, many of which have no direct relationship with us. Failure by these participants or their systems to protect our customers' transaction data may put us at risk for possible losses due to fraud or operational disruption.

Our customers are also the target of cyber attacks and identity theft. Large scale identity theft could result in customers' accounts being compromised and fraudulent activities being performed in their name. We have implemented certain safeguards against these types of activities but they may not fully protect us from fraudulent financial losses.

The occurrence of a breach of security involving our customers' information, regardless of its origin, could damage our reputation and result in a loss of customers and business and subject us to additional regulatory scrutiny, and could expose us to litigation and possible financial liability. Any of these events could have a material adverse effect on our financial condition and results of operations.

Potential acquisitions may disrupt the Corporation's business and dilute stockholder value

The Corporation generally seeks merger or acquisition partners that are culturally similar and have experienced management and possess either significant market presence or have potential for improved profitability through financial management, economies of scale or expanded services. Acquiring other banks, businesses, or branches involves various risks commonly associated with acquisitions, including, among other things:

- potential exposure to unknown or contingent liabilities of the target company;
- exposure to potential asset quality issues of the target company;
- potential disruption to the Corporation's business;
- potential diversion of the Corporation's management's time and attention;
- the possible loss of key employees and customers of the target company;
- difficulty in estimating the value of the target company; and
- potential changes in banking or tax laws or regulations that may affect the target company.

Acquisitions typically involve the payment of a premium over book and market values, and, therefore, some dilution of the Corporation's tangible book value and net income per common share may occur in connection with any future transaction. Furthermore, failure to realize the expected revenue increases, cost savings, increases in geographic or product presence, and/or other projected benefits from an acquisition could have a material adverse effect on the Corporation's business, financial condition and results of operations.

New lines of business or new products and services may subject the Corporation to additional risks

From time to time, the Corporation may implement new lines of business or offer new products and services within existing lines of business. There are substantial risks and uncertainties associated with these efforts, particularly in instances where the markets are not fully developed. In developing and marketing new lines of business and/or new products and services the Corporation may invest significant time and resources. Initial timetables for the introduction and development of new lines of business and/or new products or services may not be achieved and price and profitability targets may not prove feasible. External factors, such as compliance with regulations, competitive alternatives, and shifting market preferences, may also impact the successful implementation of a new line of business or a new product or service. Furthermore, any new line of business and/or new product or service could have a significant impact on the effectiveness of the Corporation's system of internal controls. Failure to successfully manage these risks in the development and implementation of new lines of business or new products or services could have a material adverse effect on the Corporation's business, financial condition and results of operations.

Future growth or operating results may require the Corporation to raise additional capital but that capital may not be available or it may be dilutive

The Corporation is required by federal and state regulatory authorities to maintain adequate levels of capital to support its operations. To the extent the Corporation's future operating results erode capital or the Corporation elects to expand through loan growth or acquisition it may be required to raise capital. The Corporation's ability to raise capital will depend on conditions in the capital markets, which are outside of its control, and on the Corporation's financial performance. Accordingly, the Corporation cannot be assured of its ability to raise capital when needed or on favorable terms. If the Corporation cannot raise additional capital when needed, it will be subject to increased regulatory supervision and the imposition of restrictions on its growth and business. These could negatively impact the Corporation's ability to operate or further expand its operations through acquisitions or the establishment of additional branches and may result in increases in operating expenses and reductions in revenues that could have a material adverse effect on its financial condition and results of operations.

The Corporation may become subject to claims and litigation pertaining to Intellectual Property

Banking and other financial services companies, such as the Corporation, rely on technology companies to provide information technology products and services necessary to support the Corporations' day-to-day operations. Technology companies frequently enter into litigation based on allegations of patent infringement or other violations of intellectual property rights. In addition, patent holding companies seek to monetize patents they have purchased or otherwise obtained. Competitors of the Corporation's vendors, or other individuals or companies, have from time to time claimed to hold intellectual property sold to the Corporation by its vendors. Such claims may increase in the future as the financial services sector becomes more reliant on information technology vendors. The plaintiffs in these actions frequently seek injunctions and substantial damages.

Regardless of the scope or validity of such patents or other intellectual property rights, or the merits of any claims by potential or actual litigants, the Corporation may have to engage in protracted litigation. Such litigation is often expensive, time-consuming, disruptive to the Corporation's operations, and distracting to management. If the Corporation is found to infringe upon one or more patents or other intellectual property rights, it may be required to pay substantial damages or royalties to a third-party. In certain cases, the Corporation may consider entering into licensing agreements for disputed intellectual property, although no assurance can be given that such licenses can be obtained on acceptable terms or that litigation will not occur. These licenses may also significantly increase the Corporation's operating expenses. If legal matters related to intellectual property claims were resolved against the Corporation or settled, the Corporation could be required to make payments in amounts that could have a material adverse effect on its business, financial condition and results of operations.

The value of the Corporation's goodwill and other intangible assets may decline in the future

As of December 31, 2017, the Corporation had \$36.0 million of goodwill and other intangible assets. A significant decline in the Corporation's expected future cash flows, a significant adverse change in the business climate, slower growth rates or a significant and sustained decline in the price of the Corporation's common stock may necessitate taking charges in the future related to the impairment of the Corporation's goodwill and other intangible assets. If the Corporation were to conclude that a future write-down of goodwill and other intangible assets is necessary, the Corporation would record the appropriate charge, which could have a material adverse effect on the Corporation's business, financial condition and results of operations.

The Corporation's operations rely on certain external vendors

The Corporation relies on certain external vendors to provide products and services necessary to maintain day-to-day operations of the Corporation. Accordingly, the Corporation's operations are exposed to risk that these vendors will not perform in accordance with the contracted arrangements under service level agreements. The failure of an external vendor to perform in accordance with the contracted arrangements under service level agreements, because of changes in the vendor's organizational structure, financial condition, support for existing products and services or strategic focus or for any other reason, could be disruptive to the Corporation's operations, which could have a material adverse impact on the Corporation's business and, in turn, the Corporation's financial condition and results of operations.

The Corporation may be adversely affected by the soundness of other financial institutions

Financial services institutions are interrelated as a result of trading, clearing, counterparty, or other relationships. The Corporation has exposure to many different industries and counterparties, and routinely executes transactions with counterparties in the financial services industry, including commercial banks, brokers and dealers, investment banks, and other institutional clients. Many of these transactions expose the Corporation to credit risk in the event of a default by a counterparty or client. In addition, the Corporation's credit risk may be exacerbated when the collateral held by

the Corporation cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of the credit or derivative exposure due to the Corporation. Any such losses could have a material adverse effect on the Corporation's business, financial condition and results of operations.

The Corporation relies on dividends from its subsidiaries for most of its revenue

The Corporation is a separate and distinct legal entity from its subsidiaries. It receives substantially all of its revenue from dividends from its subsidiaries. These dividends are the principal source of funds to pay dividends on the Corporation's common stock and interest and principal on the Corporation's debt. Various federal and state laws and regulations limit the amount of dividends that the Bank and Morris Plan may pay to the Corporation. Also, the Corporation's right to participate in a distribution of assets upon a subsidiary's liquidation or reorganization is subject to the prior claims of the subsidiary's creditors. In the event the Bank is unable to pay dividends to the Corporation, the Corporation may not be able to service debt, pay obligations or pay dividends on the Corporation's common stock. The inability to receive dividends from the Bank could have a material adverse effect on the Corporation's business, financial condition and results of operations.

Risks Related to the Corporation's Common Stock

The Corporation may not be able to pay dividends in the future in accordance with past practice

The Corporation has historically paid a semi-annual dividend to common stockholders. The payment of dividends is subject to legal and regulatory restrictions. Any payment of dividends in the future will depend, in large part, on the Corporation's earnings, capital requirements, financial condition and other factors considered relevant by the Corporation's Board of Directors.

The price of the Corporation's common stock may be volatile, which may result in losses for investors

General market price declines or market volatility in the future could adversely affect the price of the Corporation's common stock. In addition, the following factors may cause the market price for shares of the Corporation's common stock to fluctuate:

- announcements of developments related to the Corporation's business;
- fluctuations in the Corporation's results of operations;
- sales or purchases of substantial amounts of the Corporation's securities in the marketplace;
- general conditions in the Corporation's banking niche or the worldwide economy;
- a shortfall or excess in revenues or earnings compared to securities analysts' expectations;
- changes in analysts' recommendations or projections; and
- the Corporation's announcement of new acquisitions or other projects.

An investment in the Corporation's common stock is not an insured deposit

The Corporation's common stock is not a bank deposit and, therefore, is not insured against loss by the Federal Deposit Insurance Corporation (FDIC), any other deposit insurance fund or by any other public or private entity. Investment in the Corporation's common stock is inherently risky for the reasons described in this "Risk Factors" section and elsewhere in this report and is subject to the same market forces that affect the price of common stock in any company. As a result, if you acquire the Corporation's common stock, you could lose some or all of your investment.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The Corporation is located in a four-story office building in downtown Terre Haute, Indiana that was first occupied in June 1988. It is leased to the Bank. The Bank also owns two other facilities in downtown Terre Haute. One is available for lease and the other is a 50,000-square-foot building housing operations and administrative staff and equipment. In addition, the Bank holds in fee six other branch buildings. One of the branch buildings is a single-story 36,000-square-foot building which is located in a Terre Haute suburban area. Four other branch bank buildings are leased by the Bank. The expiration dates on the leases are May 31, 2018, February 14, 2021, May 31, 2019, and December 31, 2019.

Facilities of the Corporation's banking center in Daviess County include an office in Washington, Indiana. This building is held in fee.

Facilities of the Corporation's banking centers in Clay County include two offices in Brazil, Indiana and an office in Clay City, Indiana. All three buildings are held in fee.

Facilities of the Corporation's banking centers in Vermillion County include two offices in Clinton, Indiana and offices in Cayuga and Newport, Indiana. All four buildings are held in fee.

Facilities of the Corporation's banking centers in Sullivan County include offices in Sullivan, Dugger, Farmersburg and Hymera, Indiana. All four buildings are held in fee.

Facilities of the Corporation's banking center in Gibson County include an office in Princeton, Indiana. This building is held in fee.

Facilities of the Corporation's banking center in Greene County include an office in Worthington, Indiana. This building is held in fee.

Facilities of the Corporation's banking centers in Knox County include two offices in Vincennes, Indiana. Both buildings are held in fee.

Facilities of the Corporation's banking centers in Parke County include two offices in Rockville, Indiana and offices in Marshall and Montezuma, Indiana. All four buildings are held in fee.

Facilities of the Corporation's banking center in Putnam County include an office in Greencastle, Indiana. This building is held in fee.

Facilities of the Corporation's banking center in Vanderburgh County include an office in Evansville, Indiana. This building is held in fee.

Facilities of the Corporation's banking centers in Crawford County include its main office and a drive-up facility in Robinson, Illinois. Both buildings are held in fee.

Facilities of the Corporation's banking centers in Franklin County include an office in Benton, Illinois and an office in West Frankfort, Illinois. Both buildings are held in fee.

Facilities of the Corporation's banking centers in Jefferson County include an office and a drive-up facility in Mt. Vernon, Illinois. Both buildings are held in fee.

Facilities of the Corporation's banking center in Lawrence County include an office in Lawrenceville, Illinois. This building is held in fee.

Facilities of the Corporation's banking centers in Livingston include two offices in Pontiac, Illinois. Both buildings are held in fee.

Facilities of the Corporation's banking centers in Marion County include an office and a drive-up facility in Salem, Illinois. Both buildings are held in fee.

Facilities of the Corporation's banking center in McLean County include two offices in Bloomington, Illinois, and an office in Gridley, Illinois. A banking center in Bloomington is leased and the lease expires on June 30, 2021. The other buildings are held in fee.

Facilities of the Corporation's banking center in Wayne County include an office in Fairfield, Illinois. This building is held in fee.

Facilities of the Corporation's banking center in Jasper County include an office in Newton, Illinois. This building is held in fee.

Facilities of the Corporation's banking centers in Coles County include two offices in Charleston, Illinois and an office in Mattoon, Illinois. These buildings are held in fee.

Facilities of the Corporation's banking center in Clark County include an office in Marshall, Illinois. This building is held in fee.

Facilities of the Corporation's banking center in Champaign County include two offices in Champaign, Illinois, an office in Mahomet, Illinois, and an office in Urbana, Illinois. One of the banking centers in Champaign is held in fee while the land is leased. The land lease expires September 6, 2036. One of the banking centers in Champaign is leased and the lease expires on December 31, 2019. The banking center in Mahomet is leased and the lease expires on June 4, 2019. The banking center in Urbana is held in fee.

Facilities of the Corporation's banking center in Vermilion County include four offices in Danville, Illinois, an office in Westville, Illinois, and an office in Ridge Farm, Illinois. One of the buildings in Danville is leased and the lease expires on December 31, 2018 and the other five buildings are held in fee.

Facilities of the Corporation's banking centers in Richland County include two offices in Olney, Illinois. One building is held in fee and the other building is leased. The expiration date on the lease is April 30, 2020.

The facility of the Corporation's subsidiary, The Morris Plan Company, includes an office facility in Terre Haute, Indiana. The building is leased by The Morris Plan Company. The expiration date on the lease is October 31, 2020.

The facility of the Corporation's subsidiary, First Chanticleer Corporation, includes an office building in Terre Haute, Indiana. The building is held in fee by First Chanticleer Corporation.

Facilities of the Corporation's subsidiary, FFB Risk Management Co., Inc., include an office facility in Las Vegas, Nevada. This office facility is leased.

ITEM 3. LEGAL PROCEEDINGS

(a) There are no material pending legal proceedings to which the Corporation or its subsidiaries is a party or of which any of their property is the subject, other than ordinary routine litigation incidental to its business.

(b) Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

PART II

ITEM MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND 5. ISSUER PURCHASES OF EQUITY SECURITIES.

MARKET AND DIVIDEND INFORMATION

(a) As of March 1, 2018 shareholders owned 12,255,045 shares of the Corporation's common stock. The stock is traded on the NASDAQ Global Select Market under the symbol "THFF". On March 1, 2018, approximately 4,945 shareholders of record held our common stock.

Historically, the Corporation has paid cash dividends semi-annually and currently expects that comparable cash dividends will continue to be paid in the future. The following table gives quarterly high and low trade prices and dividends per share during each quarter for 2017 and 2016.

| Quarter ended | 2017 | | Cash Dividends Declared | 2016 | | Cash Dividends Declared |
|---------------|---------|---------|-------------------------------|---------|---------|-------------------------------|
| | High | Low | | High | Low | |
| March 31 | \$51.18 | \$43.92 | | \$34.54 | \$31.30 | |
| June 30 | \$49.29 | \$44.02 | \$ 0.50 | \$37.62 | \$31.98 | \$ 0.50 |
| September 30 | \$47.02 | \$40.38 | | \$41.32 | \$36.07 | |
| December 31 | \$49.80 | \$44.60 | \$ 2.01 | \$52.90 | \$39.40 | \$ 0.50 |

The graph below represents the five-year total return of the Corporation's stock. The five year total return for our stock during this time was 74.72%. During this same period, the return on The Russell 2000 Index was 93.58% and the SNL Index of Banks \$1 - \$5 Billion had a return of 161.04%.

| Index | Period Ending | | | | | |
|-----------------------------|---------------|------------|------------|------------|------------|------------|
| | 12/31/2012 | 12/31/2013 | 12/31/2014 | 12/31/2015 | 12/31/2016 | 12/31/2017 |
| First Financial Corporation | 100.00 | 122.82 | 123.14 | 120.83 | 193.18 | 174.72 |
| Russell 2000 | 100.00 | 138.82 | 145.62 | 139.19 | 168.85 | 193.58 |
| SNL Bank \$1B-\$5B | 100.00 | 145.41 | 152.04 | 170.20 | 244.85 | 261.04 |

(b) Not applicable.

(c) The Corporation periodically acquires shares of its common stock directly from shareholders in individually negotiated transactions. On August 25, 2014 First Financial Corporation issued a press release announcing that it's Board of Directors has authorized a stock repurchase program pursuant to which up to 5% of the Corporation's outstanding shares of common stock, or 667,700 shares may be repurchased. There were 257,989 purchases of common stock by the Corporation during the year ended December 31, 2015. On February 3, 2016 First Financial Corporation issued a press release announcing that it's Board of Directors has authorized a stock repurchase program pursuant to which up to 5% of the Corporation's outstanding shares of common stock, or 637,500 shares may be repurchased. There were 9,524 and 565,618 purchases of common stock by the Corporation during the years ended December 31, 2017 and December 31, 2016. The Corporation contributed 22,714 shares of treasury stock to the ESOP in November of 2017. There were no shares of common stock purchased by the Corporation during the fourth quarter of the fiscal year covered by this report.

ITEM 6. SELECTED FINANCIAL DATA

FIVE YEAR COMPARISON OF SELECTED FINANCIAL DATA

| (Dollar amounts in thousands, except per share amounts) | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|-------------|-------------|-------------|-------------|-------------|
| BALANCE SHEET DATA | | | | | |
| Total assets | \$3,000,668 | \$2,988,527 | \$2,979,585 | \$3,002,485 | \$3,018,711 |
| Securities | 814,931 | 853,725 | 891,082 | 897,053 | 914,560 |
| Loans | 1,906,761 | 1,839,180 | 1,763,808 | 1,781,428 | 1,791,428 |
| Deposits | 2,458,653 | 2,428,526 | 2,442,369 | 2,457,197 | 2,458,791 |
| Borrowings | 57,686 | 81,121 | 46,508 | 60,901 | 117,880 |
| Shareholders' equity | 413,569 | 414,395 | 410,316 | 394,214 | 386,195 |
| INCOME STATEMENT DATA | | | | | |
| Interest income | 114,195 | 109,380 | 108,676 | 113,358 | 116,221 |
| Interest expense | 6,338 | 4,407 | 4,169 | 5,526 | 8,961 |
| Net interest income | 107,857 | 104,973 | 104,507 | 107,832 | 107,260 |
| Provision for loan losses | 5,295 | 3,300 | 4,700 | 5,072 | 7,860 |
| Other income | 35,938 | 46,931 | 39,179 | 40,785 | 40,455 |
| Other expenses | 88,747 | 90,308 | 98,398 | 95,584 | 94,554 |
| Net income | 29,131 | 38,413 | 30,196 | 33,772 | 31,534 |
| PER SHARE DATA: | | | | | |
| Net Income | 2.38 | 3.12 | 2.35 | 2.55 | 2.37 |
| Cash dividends | 2.51 | 1.00 | 0.98 | 0.98 | 0.96 |
| PERFORMANCE RATIOS: | | | | | |
| Net income to average assets | 0.98 | % 1.30 | % 1.01 | % 1.12 | % 1.06 |
| Net income to average shareholders' equity | 6.69 | 9.26 | 7.46 | 8.37 | 8.35 |
| Average total capital to average assets | 15.24 | 14.67 | 14.26 | 13.99 | 13.45 |
| Average shareholders' equity to average assets | 14.58 | 14.01 | 13.60 | 13.36 | 12.69 |
| Dividend payout | 105.32 | 31.81 | 41.51 | 38.16 | 40.58 |

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Management's Discussion and Analysis of Financial Condition and Results of Operations, as well as disclosures found elsewhere in this report are based upon First Financial Corporation's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the Corporation to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, and expenses. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, securities valuation and goodwill. Actual results could differ from those estimates.

Allowance for loan losses. The allowance for loan losses represents management's estimate of probable incurred losses in the existing loan portfolio. The allowance for loan losses is increased by the provision for loan losses charged to expense and reduced by loans charged off, net of recoveries. The allowance for loan losses is determined based on management's assessment of several factors: reviews and evaluations of specific loans, changes in the nature and volume of the loan portfolio, current economic and nonperforming loans. Loans are considered impaired if, based on current information and events, it is probable that the Corporation will be unable to collect the scheduled payments of principal or interest according to the contractual terms of the loan agreement. When a loan is deemed impaired,

impairment is measured by using the fair value of underlying collateral, for loans deemed to be collateral dependent, the present value of the future cash flows discounted at the effective interest rate stipulated in the loan agreement, or the estimated market value of the loan. In measuring the fair value of the collateral, management uses assumptions (e.g., discount rate) and methodologies (e.g., comparison to the recent selling price of similar assets) consistent with those that would be utilized by unrelated third parties.

Changes in the financial condition of individual borrowers, economic conditions, historical loss experience, or the condition of the various markets in which collateral may be sold may affect the required level of the allowance for loan losses and the associated provision for loan losses. Should cash flow assumptions or market conditions change, a different amount may be recorded for the allowance for loan losses and the associated provision for loan losses.

Securities valuation and potential impairment. Securities available-for-sale are carried at fair value, with unrealized holding gains and losses reported separately in accumulated other comprehensive income (loss), net of tax. The Corporation obtains market values from a third party on a monthly basis in order to adjust the securities to fair value. Equity securities that do not have readily determinable fair values are carried at cost. Additionally, all securities are required to be evaluated for other than temporary impairment (OTTI). In determining whether a fair value decline is other than temporary, management considers the reason for the decline, the extent of the decline, the duration of the decline and whether the Corporation intends to sell a security or is more likely than not to be required to sell a security before recovery of its amortized cost. 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, 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.

Changes in credit ratings, financial condition of underlying debtors, default experience and market liquidity affect the conclusions on whether securities are other-than-temporarily impaired. Additional losses may be recorded through earnings for other than temporary impairment, should there be an adverse change in the expected cash flows for these investments.

Goodwill. The carrying value of goodwill requires management to use estimates and assumptions about the fair value of the reporting unit compared to its book value. An impairment analysis is prepared on an annual basis. Fair values of the reporting units are determined by an analysis which considers cash flows streams, profitability and estimated market values of the reporting unit. The majority of the Corporation's goodwill is recorded at First Financial Bank, N. A.

Management believes the accounting estimates related to the allowance for loan losses, valuation of investment securities and the valuation of goodwill are "critical accounting estimates" because: (1) the estimates are highly susceptible to change from period to period because they require management to make assumptions concerning, among other factors, the changes in the types and volumes of the portfolios, valuation assumptions, and economic conditions, and (2) the impact of recognizing an impairment or loan loss could have a material effect on the Corporation's assets reported on the balance sheet as well as net income.

RESULTS OF OPERATIONS - SUMMARY FOR 2017

COMPARISON OF 2017 TO 2016

Net income for 2017 was \$29.1 million, or \$2.38 per share versus \$38.4 million, or \$3.12 per share for 2016, which included an after-tax gain on the sale of the Corporation's insurance subsidiary of \$5.8 million. The 2017 results were negatively impacted by the revaluation of the Corporation's deferred tax assets as a result of the passage of the Tax Cuts and Jobs Act resulting in a non-cash tax expense of \$6.3 million. Return on average assets at December 31, 2017 decreased 24.6% to 0.98% compared to 1.3% at December 31, 2016.

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

NET INTEREST INCOME

The principal source of the Corporation's earnings is net interest income, which represents the difference between interest earned on loans and investments and the interest cost associated with deposits and other sources of funding. Net interest income increased in 2017 to \$107.9 million compared to \$105.0 million in 2016. Total average interest earning assets increased to \$2.78 billion in 2017 from \$2.75 billion in 2016. The tax-equivalent yield on these assets increased to 4.34% in 2017 from 4.21% in 2016. Total average interest-bearing liabilities increased to \$2.05 billion in 2017 from \$1.92 billion in 2016. The average cost of these interest-bearing liabilities increased to 0.31% in 2017 from 0.23% in 2016.

The net interest margin increased from 4.04% in 2016 to 4.11% in 2017. Earning asset yields increased 13 basis points while the rate on interest-bearing liabilities increased by 8 basis points.

CONSOLIDATED BALANCE SHEET - AVERAGE BALANCES AND INTEREST RATES

| (Dollar amounts in thousands) | December 31, | | | 2016 | | | 2015 | | |
|---|--------------------|-----------|------------|--------------------|-----------|------------|--------------------|-----------|------------|
| | Average Balance | Interest | Yield/Rate | Average Balance | Interest | Yield/Rate | Average Balance | Interest | Yield/Rate |
| ASSETS | | | | | | | | | |
| Interest-earning assets: | | | | | | | | | |
| Loans (1) (2) | \$1,855,092 | 92,750 | 5.00% | \$1,792,609 | 87,636 | 4.89% | \$1,761,888 | 85,529 | 4.85% |
| Taxable investment securities | 632,672 | 14,325 | 2.26% | 672,641 | 14,506 | 2.16% | 705,118 | 15,814 | 2.24% |
| Tax-exempt investments (2) | 279,301 | 13,337 | 4.78% | 267,849 | 13,358 | 4.99% | 259,191 | 13,518 | 5.22% |
| Federal funds sold | 12,663 | 101 | 0.80% | 15,066 | 63 | 0.42% | 18,272 | 52 | 0.28% |
| Total interest-earning assets | 2,779,728 | 120,513 | 4.34% | 2,748,165 | 115,563 | 4.21% | 2,744,469 | 114,913 | 4.19% |
| Non-interest earning assets: | | | | | | | | | |
| Cash and due from banks | 61,650 | | | 62,694 | | | 73,066 | | |
| Premises and equipment, net | 48,368 | | | 49,721 | | | 50,877 | | |
| Other assets | 114,329 | | | 122,450 | | | 128,177 | | |
| Less allowance for loan losses | (19,528) | | | (19,650) | | | (19,658) | | |
| TOTALS | \$2,984,547 | | | \$2,963,380 | | | \$2,976,931 | | |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | | | | | | |
| Interest-bearing liabilities: | | | | | | | | | |
| Transaction accounts | \$1,647,622 | 3,795 | 0.23% | \$1,482,046 | 1,986 | 0.13% | \$1,463,662 | 1,429 | 0.10% |
| Time deposits | 356,281 | 2,216 | 0.62% | 393,180 | 2,173 | 0.55% | 437,961 | 2,505 | 0.57% |
| Short-term borrowings | 39,802 | 245 | 0.62% | 38,081 | 134 | 0.35% | 32,644 | 70 | 0.21% |
| Other borrowings | 7,205 | 82 | 1.14% | 8,475 | 114 | 1.35% | 14,463 | 165 | 1.14% |
| Total interest-bearing liabilities: | 2,050,910 | 6,338 | 0.31% | 1,921,782 | 4,407 | 0.23% | 1,948,730 | 4,169 | 0.21% |
| Non interest-bearing liabilities: | | | | | | | | | |
| Demand deposits | 438,234 | | | 550,977 | | | 544,708 | | |
| Other | 60,137 | | | 75,589 | | | 78,648 | | |
| | 2,549,281 | | | 2,548,348 | | | 2,572,086 | | |
| Shareholders' equity | 435,266 | | | 415,032 | | | 404,845 | | |
| TOTALS | \$2,984,547 | | | \$2,963,380 | | | \$2,976,931 | | |
| Net interest earnings | | \$114,175 | | | \$111,156 | | | \$110,744 | |
| Net yield on interest-earning assets | | | 4.11% | | | 4.04% | | | 4.04% |

(1) For purposes of these computations, non-accruing loans are included in the daily average loan amounts outstanding.

(2) Interest income includes the effect of tax equivalent adjustments using a federal tax rate of 35%.

The following table sets forth the components of net interest income due to changes in volume and rate. The table information compares 2017 to 2016 and 2016 to 2015.

| (Dollar amounts in thousands) | 2017 Compared to 2016 Increase (Decrease) Due to | | | | 2016 Compared to 2015 Increase (Decrease) Due to | | | |
|--|---|---------|-----------------|---------|---|-----------|-----------------|----------|
| | Volume | Rate | Volume/ Rate | Total | Volume | Rate | Volume/ Rate | Total |
| Interest earned on interest-earning assets: | | | | | | | | |
| Loans (1) (2) | \$3,055 | \$1,991 | \$ 69 | \$5,115 | \$1,492 | \$605 | \$ 11 | \$2,108 |
| Taxable investment securities | (862) | 724 | (43) | (181) | (728) | (608) | 28 | (1,308) |
| Tax-exempt investment securities (2) | 571 | (568) | (24) | (21) | 452 | (592) | (20) | (160) |
| Federal funds sold | (10) | 57 | (9) | 38 | (9) | 24 | (4) | 11 |
| Total interest income | \$2,754 | \$2,204 | \$ (7) | \$4,951 | \$1,207 | \$(571) | \$ 15 | \$651 |
| Interest paid on interest-bearing liabilities: | | | | | | | | |
| Transaction accounts | 222 | 1,428 | 159 | 1,809 | 18 | 532 | 7 | 557 |
| Time deposits | (204) | 273 | (26) | 43 | (256) | (85) | 9 | (332) |
| Short-term borrowings | 6 | 100 | 5 | 111 | 12 | 45 | 7 | 64 |
| Other borrowings | (17) | (18) | 3 | (32) | (68) | 30 | (12) | (50) |
| Total interest expense | 7 | 1,783 | 141 | 1,931 | (294) | 522 | 11 | 239 |
| Net interest income | \$2,747 | \$421 | \$(148) | \$3,020 | \$1,501 | \$(1,093) | \$ 4 | \$412 |

(1)For purposes of these computations, non-accruing loans are included in the daily average loan amounts outstanding.

(2)Interest income includes the effect of tax equivalent adjustments using a federal tax rate of 35%.

PROVISION FOR LOAN LOSSES

The provision for loan losses charged to expense is based upon credit loss experience and the results of a detailed analysis estimating an appropriate and adequate allowance for loan losses. The analysis includes the evaluation of impaired loans as prescribed under Accounting Standards Codification (ASC-310), pooled loans as prescribed under ASC 450-10, and economic and other risk factors as outlined in various Joint Interagency Statements issued by the bank regulatory agencies. For the year ended December 31, 2017, the provision for loan losses was \$5.3 million, an increase of \$2.0 million, or 60.5%, compared to 2016.

Impaired loans increased to \$10.1 million at December 31, 2017 from \$8.6 million at December 31, 2016. The allowance allocation for these impaired loans increased to \$625 thousand from \$331 thousand during this period, contributing to the increase in provision in 2017 compared to 2016. Net charge-offs for 2017 were \$4.2 million as compared to \$4.5 million for 2016 and \$3.6 million for 2015. Non-accrual loans, excluding TDR's, decreased to \$13.2 million at December 31, 2017 from \$13.5 million at December 31, 2016. Loans past due 90 days and still on accrual increased to \$1.4 million compared to \$0.6 million at December 31, 2016.

NON-INTEREST INCOME

Non-interest income of \$35.9 million decreased \$11.0 million from the \$46.9 million earned in 2016. Non -interest income decreased due to the gain on sale of certain assets and liabilities of the insurance brokerage of \$12.8 million in 2016, which was offset by \$3.1 million received in 2017 for a collateralized debt obligation with no remaining book value.

NON-INTEREST EXPENSES

Non-interest expenses decreased to \$88.7 million in 2017 from \$90.3 million in 2016. Fringe benefits decreased \$1.7 million as pension costs were reduced.

INCOME TAXES

The Corporation's federal income tax provision was \$20.6 million in 2017 compared to \$19.9 million in 2016. The overall effective tax rate in 2017 of 41.5% increased as compared to a 2016 effective rate of 34.1%, primarily due to the deferred tax adjustment related to the Tax Cuts and Jobs Act.

COMPARISON OF 2016 TO 2015

Net income for 2016 was \$38.4 million or \$3.12 per share compared to \$30.2 million in 2015 or \$2.35 per share. This increase in net income was driven by the gain on sale of certain assets and liabilities of the insurance brokerage of \$12.8 million, as well as lower non-interest expense due to reduced salaries and benefits expenses as a result of the sale.

Net interest income increased \$466 thousand in 2016 compared to 2015. The provision for loan losses decreased \$1.4 million from \$4.7 million in 2015 to \$3.3 million in 2016. Non-interest expenses decreased \$8.1 million while non-interest income increased \$7.7 million. The increase in non-interest income and the decrease in non-interest expense resulted primarily from the sale of the insurance brokerage.

The provision for income taxes increased \$9.5 million from 2015 to 2016 and the effective tax rate increased 851 basis points, or 33.2% in 2016 from 2015. The tax increase is principally due to the sale of certain assets and liabilities of the brokerage operation. The sale eliminated goodwill of \$5.1 million which was not deductible for tax purposes which had the effect of increasing the tax gain on the sale compared to the book gain, resulting in additional tax expense.

COMPARISON AND DISCUSSION OF 2017 BALANCE SHEET TO 2016

The Corporation's total assets increased 0.4% or \$12.1 million at December 31, 2017, from a year earlier. Available-for-sale securities decreased \$38.8 million at December 31, 2017, from the previous year. Loans, net increased by \$67.6 million to \$1.91 billion. Deposits increased \$30.1 million while borrowings decreased by \$23.4 million. Total shareholders' equity decreased \$0.8 million to \$413.6 million at December 31, 2017. In 2017 dividends paid by the Corporation totaled \$2.50, which included a \$1.50 per share special dividend paid to shareholders on December 1, 2017, which totaled \$18,335,625. There were also 22,714 shares from the treasury with a value of \$1.06 million that were contributed to the ESOP plan in 2017 compared to 30,975 shares with a value of \$1.36 million in 2016.

Following is an analysis of the components of the Corporation's balance sheet.

SECURITIES

The Corporation's investment strategy seeks to maximize income from the investment portfolio while using it as a risk management tool and ensuring safety of principal and capital. During 2017 the portfolio's balance decreased by 4.5%. The average life of the portfolio decreased from 4.9 years in 2016 to 4.8 years in 2017. The portfolio structure will continue to provide cash flows to be reinvested during 2018.

| (Dollar amounts in thousands) | 1 year and less | | 1 to 5 years | | 5 to 10 years | | Over 10 Years | | 2017 Total |
|--|-----------------|--------------|-----------------|--------------|------------------|--------------|------------------|--------------|------------------|
| | Balance | Rate | Balance | Rate | Balance | Rate | Balance | Rate | |
| U.S. government sponsored entity mortgage-backed securities and agencies (1) | \$439 | 4.78% | \$4,277 | 4.89% | \$55,887 | 5.72% | \$168,432 | 4.52% | \$229,035 |
| Collateralized mortgage obligations (1) | 130 | 4.22% | 440 | 6.32% | 5,175 | 3.57% | 333,924 | 2.47% | 339,669 |
| States and political subdivisions | 4,701 | 3.93% | 31,338 | 3.38% | 85,726 | 3.51% | 109,857 | 3.12% | 231,622 |
| Corporate obligations | — | —% | — | —% | — | —% | 14,605 | —% | 14,605 |
| TOTAL | \$5,270 | 4.01% | \$36,055 | 3.60% | \$146,788 | 4.35% | \$626,818 | 3.08% | \$814,931 |

(1) Distribution of maturities is based on the estimated life of the asset.

| (Dollar amounts in thousands) | 1 year and less | | 1 to 5 years | | 5 to 10 years | | Over 10 Years | | 2016 Total |
|--|-----------------|---------------|---------------|---------------|----------------|---------------|----------------|---------------|----------------|
| | Balance | Rate | Balance | Rate | Balance | Rate | Balance | Rate | |
| U.S. government sponsored entity mortgage-backed securities and agencies (1) | \$ 73 | 4.62 % | \$ 10,583 | 4.82 % | \$ 71,322 | 5.69 % | \$ 192,280 | 4.59 % | \$ 274,258 |
| Collateralized mortgage obligations (1) | — | — % | 1,525 | 5.34 % | 6,504 | 3.54 % | 340,147 | 2.44 % | 348,176 |
| States and political subdivisions | 3,527 | 3.66 % | 51,043 | 3.54 % | 90,010 | 3.49 % | 74,343 | 3.09 % | 218,923 |
| Corporate obligations | — | — % | — | — % | — | — % | 12,368 | — % | 12,368 |
| TOTAL | 3,600 | 3.68 % | 63,151 | 3.80 % | 167,836 | 4.43 % | 619,138 | 3.14 % | 853,725 |

(1) Distribution of maturities is based on the estimated life of the asset.

LOAN PORTFOLIO

Loans outstanding by major category as of December 31 for each of the last five years and the maturities at year end 2017 are set forth in the following analyses.

| (Dollar amounts in thousands) | 2017 | 2016 | 2015 | 2014 | 2013 |
|-------------------------------|-------------|-------------|-------------|-------------|-------------|
| Loan Category | | | | | |
| Commercial | \$1,139,490 | \$1,106,182 | \$1,043,980 | \$1,044,522 | \$1,042,138 |
| Residential | 436,143 | 423,911 | 444,447 | 469,172 | 482,377 |
| Consumer | 327,976 | 305,881 | 272,896 | 266,656 | 268,033 |
| TOTAL | \$1,903,609 | \$1,835,974 | \$1,761,323 | \$1,780,350 | \$1,792,548 |

| (Dollar amounts in thousands) | Within One Year | After One But Within Five Years | After Five Years | Total |
|--|--------------------|---------------------------------------|---------------------|-------------|
| MATURITY DISTRIBUTION | | | | |
| Commercial, financial and agricultural | \$459,602 | \$531,255 | \$148,633 | \$1,139,490 |
| TOTAL | | | | |
| Residential | | | | 436,143 |
| Consumer | | | | 327,976 |
| TOTAL | | | | \$1,903,609 |
| Loans maturing after one year with: | | | | |
| Fixed interest rates | | \$155,995 | \$139,568 | |
| Variable interest rates | | 375,260 | 9,065 | |
| TOTAL | | \$531,255 | \$148,633 | |

ALLOWANCE FOR LOAN LOSSES

The activity in the Corporation's allowance for loan losses is shown in the following analysis:

| (Dollar amounts in thousands) | 2017 | 2016 | 2015 | 2014 | 2013 | |
|--|-------------|-------------|-------------|-------------|-------------|---|
| Amount of loans outstanding at December 31, | \$1,903,609 | \$1,835,974 | \$1,761,323 | \$1,780,350 | \$1,792,548 | |
| Average amount of loans by year | \$1,855,092 | \$1,792,609 | \$1,761,888 | \$1,795,235 | \$1,807,599 | |
| Allowance for loan losses at beginning of year | \$18,773 | \$19,946 | \$18,839 | \$20,068 | \$21,958 | |
| Loans charged off: | | | | | | |
| Commercial | 1,572 | 2,659 | 2,852 | 3,522 | 4,830 | |
| Residential | 761 | 1,011 | 866 | 1,143 | 4,942 | |
| Consumer | 6,429 | 5,279 | 4,810 | 4,785 | 3,615 | |
| Total loans charged off | 8,762 | 8,949 | 8,528 | 9,450 | 13,387 | |
| Recoveries of loans previously charged off: | | | | | | |
| Commercial | 1,377 | 1,663 | 2,429 | 934 | 3,149 | |
| Residential | 842 | 676 | 452 | 798 | 472 | |
| Consumer | 2,384 | 2,137 | 2,054 | 2,104 | 1,401 | |
| Total recoveries | 4,603 | 4,476 | 4,935 | 3,836 | 5,022 | |
| Net loans charged off | 4,159 | 4,473 | 3,593 | 5,614 | 8,365 | |
| Provision charged to expense * | 5,295 | 3,300 | 4,700 | 4,385 | 6,475 | |
| Balance at end of year | \$19,909 | \$18,773 | \$19,946 | \$18,839 | \$20,068 | |
| | 0.22 | % 0.25 | % 0.20 | % 0.31 | % 0.46 | % |

Ratio of net charge-offs during period to
average loans outstanding

31

* In 2014 and 2013 the provision charged to expense was increased by \$687 thousand and \$1.4 million, respectively for the decrease to the FDIC indemnification asset.

The allowance is maintained at an amount management believes sufficient to absorb probable incurred losses in the loan portfolio. Monitoring loan quality and maintaining an adequate allowance is an ongoing process overseen by senior management and the loan review function. On at least a quarterly basis, a formal analysis of the adequacy of the allowance is prepared and reviewed by management and the Board of Directors. This analysis serves as a point in time assessment of the level of the allowance and serves as a basis for provisions for loan losses. The loan quality monitoring process includes assigning loan grades and the use of a watch list to identify loans of concern.

Included in the \$1.9 billion of loans outstanding at December 31, 2017 are \$4.3 million of covered loans, those loans acquired with the purchase of the First National Bank of Danville from the FDIC that are covered by the loss sharing agreement.

Also included are loans acquired on December 30, 2011 in the Freestar acquisition. The acquired portfolio includes purchased credit impaired loans with a contractual balance due of \$1.5 million and a carrying value of \$1.6 million.

The analysis of the allowance for loan losses includes the allocation of specific amounts of the allowance to individual impaired loans, generally based on an analysis of the collateral securing those loans. Portions of the allowance are also allocated to loan portfolios, based upon a variety of factors including historical loss experience, trends in the type and volume of the loan portfolios, trends in delinquent and non-performing loans, and economic trends affecting our market. These components are added together and compared to the balance of our allowance at the evaluation date. The allowance for loan losses as a percentage of total loans increased to 1.04% at year end 2017 compared to 1.02% at year end 2016. The Corporation's unallocated allowance position of \$1.5 million at December 31, 2017 decreased from \$1.7 million at December 31, 2016 and December 31, 2015. The calculation of historical losses used in the allowance computation averages the net charge off activity and qualitative factors that supplement historical losses and consider internal and external factors that influence management's expectations of loss in the portfolio and the unallocated portion of the allowance reflects management's uncertainty about whether the more modest levels of net charge offs in the recent years, particularly in the commercial segment of the portfolio, are sustainable and representative of the risk in the loan portfolio. Non-performing loans of \$21.7 million at December 31, 2017 decreased from \$22.7 million at December 31, 2016 due in large part to the resolution of certain commercial credits in 2017. Management believes the allowance for loan losses balance at year end 2017, including the unallocated portion, is reasonable based on their analysis of specific loans and the credit trends reflected within the loan portfolio. The table below presents the allocation of the allowance to the loan portfolios at year-end.

| (Dollar amounts in thousands) | Years Ended December 31, | | | | |
|--|--------------------------|-----------------|-----------------|-----------------|-----------------|
| | 2017 | 2016 | 2015 | 2014 | 2013 |
| Commercial | \$10,281 | \$9,731 | \$11,482 | \$10,915 | \$12,450 |
| Residential | 1,455 | 1,553 | 1,834 | 1,374 | 1,585 |
| Consumer | 6,709 | 5,767 | 4,945 | 4,370 | 3,650 |
| Unallocated | 1,464 | 1,722 | 1,685 | 2,180 | 2,383 |
| TOTAL ALLOWANCE FOR LOAN LOSSES | \$19,909 | \$18,773 | \$19,946 | \$18,839 | \$20,068 |

NONPERFORMING LOANS

Management monitors the components and status of nonperforming loans as a part of the evaluation procedures used in determining the adequacy of the allowance for loan losses. It is the Corporation's policy to discontinue the accrual of interest on loans where, in management's opinion, serious doubt exists as to collectability. The amounts shown

below represent non-accrual loans, loans which have been restructured to provide for a reduction or deferral of interest or principal because of deterioration in the financial condition of the borrower and those loans which are past due more than 90 days where the Corporation continues to accrue interest. Restructured loans declined in 2017 and 2016 due to the reduced number and balance of loans added combined with the continued receipt of payments in accordance with the restructuring terms as well as in 2015 there was one large commercial credit paid off. Non-accrual restructured loans decreased in 2014 primarily due to the sale in 2014 of two large commercial credits and in 2013 of one large commercial credit. Additional information regarding restructured loans is available in the footnotes to the financial statements.

| (Dollar amounts in thousands) | 2017 | 2016 | 2015 | 2014 | 2013 |
|--------------------------------------|----------|----------|----------|----------|----------|
| Non-accrual loans | \$13,245 | \$13,492 | \$14,634 | \$15,034 | \$19,779 |
| Accruing restructured loans | 3,280 | 3,729 | 4,851 | 4,616 | 4,199 |
| Non-accrual restructured loans | 3,754 | 4,836 | 5,009 | 10,142 | 13,102 |
| Accruing loans past due over 90 days | 1,403 | 610 | 964 | 780 | 2,073 |
| | \$21,682 | \$22,667 | \$25,458 | \$30,572 | \$39,153 |

The ratio of the allowance for loan losses as a percentage of nonperforming loans was 92% at December 31, 2017, compared to 83% in 2016. There were no covered loans included in restructured loans in 2017 and 2016. In the footnotes to the financial statements the amount reported for nonperforming loans is the recorded investment which includes accrued interest receivable. The following loan categories comprise significant components of the nonperforming loans at December 31, 2017 and 2016:

| (Dollar amounts in thousands) | 2017 | | 2016 | |
|-------------------------------|----------|------|----------|------|
| Non-accrual loans: | | | | |
| Commercial loans | \$7,935 | 60 % | \$6,534 | 48 % |
| Residential loans | 4,445 | 34 % | 6,077 | 45 % |
| Consumer loans | 865 | 6 % | 881 | 7 % |
| | \$13,245 | 100% | \$13,492 | 100% |
| Past due 90 days or more: | | | | |
| Commercial loans | \$57 | 4 % | \$44 | 7 % |
| Residential loans | 1,088 | 78 % | 287 | 47 % |
| Consumer loans | 258 | 18 % | 279 | 46 % |
| | \$1,403 | 100% | \$610 | 100% |

| Covered Loans (also included above) | | | | |
|-------------------------------------|------|------|-------|------|
| (Dollar amounts in thousands) | 2017 | | 2016 | |
| Non-accrual loans: | | | | |
| Commercial loans | \$2 | 3 % | \$3 | 3 % |
| Residential loans | 60 | 97 % | 109 | 97 % |
| Consumer loans | — | — % | — | — % |
| | \$62 | 100% | \$112 | 100% |
| Past due 90 days or more: | | | | |
| Commercial loans | \$— | — % | \$— | — % |
| Residential loans | 88 | 100% | 80 | 100% |
| Consumer loans | — | — % | — | — % |
| | \$88 | 100% | \$80 | 100% |

Management considers the present allowance to be appropriate and adequate to cover probable incurred losses inherent in the loan portfolio based on the current economic environment. However, future economic changes cannot be predicted. Deteriorating economic conditions could result in an increase in the risk characteristics of the loan portfolio and an increase in the potential for loan losses.

DEPOSITS

The information below presents the average amount of deposits and rates paid on those deposits for 2017, 2016 and 2015.

| (Dollar amounts in thousands) | 2017 | | 2016 | | 2015 | |
|--------------------------------------|-------------|-------|-------------|-------|-------------|-------|
| | Amount | Rate | Amount | Rate | Amount | Rate |
| Non-interest-bearing demand deposits | \$438,234 | | \$550,977 | | \$544,708 | |
| Interest-bearing demand deposits | 719,728 | 0.30% | 592,832 | 0.18% | 591,412 | 0.12% |
| Savings deposits | 927,894 | 0.19% | 889,214 | 0.11% | 872,250 | 0.08% |
| Time deposits: \$100,000 or more | 100,432 | 0.69% | 108,739 | 0.58% | 117,066 | 0.59% |
| Other time deposits | 255,849 | 0.59% | 284,441 | 0.54% | 320,895 | 0.57% |
| TOTAL | \$2,442,137 | | \$2,426,203 | | \$2,446,331 | |

The maturities of certificates of deposit of more than \$100 thousand outstanding at December 31, 2017, are summarized as follows:

(Dollar amounts in thousands)

| | |
|--------------------------|----------|
| 3 months or less | \$12,771 |
| Over 3 through 6 months | 13,652 |
| Over 6 through 12 months | 22,581 |
| Over 12 months | 49,802 |
| TOTAL | \$98,806 |

OTHER BORROWINGS

Advances from the Federal Home Loan Bank decreased to zero in 2017 compared to \$132 thousand in 2016. The Asset/Liability Committee reviews these funding sources and considers the related strategies on a monthly basis. See Interest Rate Sensitivity and Liquidity below for more information.

CAPITAL RESOURCES

Bank regulatory agencies have established capital adequacy standards which are used extensively in their monitoring and control of the industry. These standards relate capital to level of risk by assigning different weightings to assets and certain off-balance-sheet activity. As shown in the footnote to the consolidated financial statements ("Regulatory Matters"), the Corporation's subsidiary banking institutions capital exceeds the requirements to be considered well capitalized at December 31, 2017.

First Financial Corporation's objective continues to be to maintain adequate capital to merit the confidence of its customers and shareholders. To warrant this confidence, the Corporation's management maintains a capital position which they believe is sufficient to absorb unforeseen financial shocks without unnecessarily restricting dividends to its shareholders. The Corporation's dividend payout ratio for 2017 and 2016 was 105.3% and 31.8%, respectively. The Corporation expects to continue its policy of paying regular cash dividends, subject to future earnings and regulatory restrictions and capital requirements.

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 earnings simulation and market value of equity sensitivity analysis. These tools allow management to quantify and monitor both short-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 December 31, 2017. 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 2.36% over the next 12 months and increase 6.03% over the following 12 months. Given a 100 basis point decrease in rates, net interest income would decrease 2.78% over the next 12 months and decrease 4.2% over the following 12 months. These estimates assume all rate changes occur overnight and management takes no action as a result of this change.

| Basis Point Interest Rate Change | Percentage Change in Net Interest Income | | | | | |
|-------------------------------------|--|---|-----------|---|-----------|---|
| | 12 months | | 24 months | | 36 months | |
| Down 200 | -3.39 | % | -6.19 | % | -8.61 | % |
| Down 100 | -2.78 | % | -4.20 | % | -5.64 | % |
| Up 100 | 2.36 | % | 6.03 | % | 9.53 | % |
| Up 200 | 1.48 | % | 8.38 | % | 15.22 | % |

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

Liquidity Risk Liquidity is measured by the bank's ability to raise funds to meet the obligations of its customers, including deposit withdrawals and credit needs. This is accomplished primarily by maintaining sufficient liquid assets in the form of investment securities and core deposits. The Corporation has \$5.3 million of investments that mature throughout the coming 12 months. The Corporation also anticipates \$98.3 million of principal payments from mortgage-backed securities. Given the current rate environment, the Corporation anticipates \$25.3 million in securities to be called within the next 12 months.

The Corporation also has additional sources of liquidity available through secured and unsecured borrowing capacity. These include upstream correspondents, the Federal Home Loan Bank and the Federal Reserve Bank.

CONTRACTUAL OBLIGATIONS, COMMITMENTS, CONTINGENT LIABILITIES AND OFF-BALANCE SHEET ARRANGEMENTS

The Corporation has various financial obligations, including contractual obligations and commitments that may require future cash payments.

Contractual Obligations: The following table presents, as of December 31, 2017, significant fixed and determinable contractual obligations to third parties by payment date. Further discussion of the nature of each obligation is included in the referenced note to the consolidated financial statements.

Payments Due in

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| (Dollar amounts in thousands) | Not Referred | One year to Three Years | One year to Three to Five Years | Three to Five Years | Over Five Years | Total |
|------------------------------------|-----------------|-------------------------------|---------------------------------------|---------------------------|--------------------|--------------|
| Deposits without a stated maturity | \$2,121,722 | \$ | — | \$ | — | —\$2,121,722 |
| Consumer certificates of deposit | 181,508 | 109,904 | 45,467 | 52 | | 336,931 |
| Short-term borrowings | 11 57,686 | — | — | — | — | 57,686 |
| Other borrowings | 12 — | — | — | — | — | — |

The Corporation has obligations under its pension, supplemental executive retirement plan and post-retirement medical benefits plan as described in Note 15 to the consolidated financial statements.

The Corporation has lease obligations on certain branch properties and equipment as described in Note 8 to the consolidated financial statements.

Commitments: The following table details the amount and expected maturities of significant commitments as of December 31, 2017. Further discussion of these commitments is included in Note 14 to the consolidated financial statements.

| | Total Amount | One year or less | Over One Year |
|-------------------------------|-----------------|---------------------|------------------|
| (Dollar amounts in thousands) | Committed | | |
| Commitments to extend credit: | | | |
| Unused loan commitments | \$ 387,701 | \$ 193,683 | \$ 194,018 |
| Commercial letters of credit | 5,012 | 4,525 | 487 |

Commitments to extend credit, including loan commitments, standby and commercial letters of credit do not necessarily represent future cash requirements, in that these commitments often expire without being drawn upon.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information contained in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the preceding pages of this Form 10-K is incorporated herein by reference in response to this item.

ITEM 8. FINANCIAL STATEMENTS AND
SUPPLEMENTARY DATA

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of First Financial Corporation (the "Corporation") has prepared and is responsible for the preparation and accuracy of the consolidated financial statements and related financial information included in the Annual Report.

The management of the Corporation is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. The Corporation's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Corporation's internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Corporation; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Corporation are being made only in accordance with authorizations of management and directors of the Corporation; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Corporation's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the Corporation's system of internal control over financial reporting as of December 31, 2017, in relation to criteria for effective internal control over financial reporting as described in "Internal Control—Integrated Framework," issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 2013. Based on this assessment, management concluded that, as of December 31, 2017, its system of internal control over financial reporting is effective and meets the criteria of the "Internal Control—Integrated Framework."

Crowe Horwath LLP, independent registered public accounting firm, has audited the Corporation's internal control over financial reporting as of December 31, 2017 and has issued a report dated March 7, 2018.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Shareholders and the Board of Directors of First Financial Corporation
Terre Haute, Indiana

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of First Financial Corporation (the "Corporation") as of December 31, 2017 and 2016, the related consolidated statements of income and comprehensive income, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2017, and the related notes (collectively referred to as the "financial statements"). We also have audited the Corporation's internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control - Integrated Framework: (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2017 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control - Integrated Framework: (2013) issued by COSO.

Basis for Opinions

The Corporation's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Corporation's financial statements and an opinion on the Corporation's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Corporation in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements fo