First Financial Corporation

2021 Annual Report

Profile

First Financial Corporation (NASDAQ: THFF) is a financial services holding company headquartered in Terre Haute, Indiana.

Our subsidiary, First Financial Bank N.A., founded in 1834, is the fifth oldest national bank in the United States and operates 78 banking centers in Indiana, Illinois, Kentucky and Tennessee. First Financial Corporation provides a full menu of banking services, including depository accounts, loans, brokerage services, and trust and asset management to retail and business customers.

Vision

Enhance our clients' ability to spend, save, borrow and invest.

Mission

Deliver financial solutions that are simple, fast and easy.

Values

We build strong relationships and treat everyone with dignity and respect.

We embrace the diversity of our customers and co-workers.

We apply the highest standards of excellence to everything we do.

We work as a team to deliver world-class customer service.

We are involved in our communities.

We recognize profitability is essential to our future success.

Cover: The famous Big Four Bridge spans the Ohio River and connects Indiana and Kentucky. What was once a railroad bridge has transformed over the years as a walking bridge, bringing people closer together.

Letter to Our Shareholders

Dear Fellow Shareholders,

Composing this year's letter has been especially difficult. My initial thoughts, as they were last year, centered on the pandemic and its impact on the lives of our associates, customers and the communities we serve. As the number of Covid-19 cases dropped nationally, my optimism, and likely yours, grew as we came to the realization that we may be moving from a pandemic to a more manageable phase of the virus. Only time will tell.

Believing we may be returning to some form of normalcy, my attention turned to the pressing issues of the economy, supply chain shortages, persons needed to fill critical jobs and inflation at rates not seen in forty years. Those concerns, however, quickly became secondary as Russia invaded Ukraine. I realize everything we accomplished last year, the hard work and commitment of our associates and the potential challenges of 2022, all pale in comparison to the sacrifices, patriotism and bravery of the Ukrainian people.

As people around the world publicly witness the tragedy of war, I give thanks for our safety, the freedom we enjoy as a nation and for the opportunity to come to work every day for a great company with equally great associates.

Financial Results

I am pleased to report 2021 was another year of successful financial performance. Our reported net income was $53.0 million. Diluted net income per common share was $4.02, a 2.3% increase over the $3.93 per share reported for 2020. Return on average assets was 1.10% and our efficiency ratio remained strong at 61.84%. Adjusting for the Hancock acquisition and the branch consolidation initiative, our net income would have been $58.4 million, or $4.43 per common share. Our complete financial results are reported in detail in the 10K which is included with this Annual Report.

Dividends and Share Repurchase

Our strong financial performance in 2021 allowed us to increase dividends for the 33rd consecutive year and to declare a special dividend as well. In addition to our dividend, we returned $42.16 million to our shareholders through the repurchase of 981,132 common shares.

Shareholder Outreach and Engagement

We were busy again this year, actively engaging shareholders and potential shareholders. In September, our executive team participated in the Raymond James US Bank Conference meeting with current shareholders and institutional investors interested in our company. In the fourth quarter, we sought to engage current institutional investors, reaching out to owners of 39% of our outstanding shares. Our discussions with these shareholders included subjects such as executive compensation and

environmental, social and governance matters ("ESG"). This year's outreach confirmed, as it did last year, that our shareholders are broadly supportive of our financial performance, executive compensation, governance and ESG practices.

We are pleased our investors appreciate our engagement and welcomed their advice that it reflects positively on First Financial Corporation. The strong support of our investors was apparent at our 2021 annual meeting when over 92% of participating shareholders noted their approval of our compensation and governance practices.

Branch Consolidation

During 2021, we executed a branch consolidation strategy in response to the accelerated shift of customer banking preferences to electronic delivery. This initiative consolidated 10 branches into other nearby locations, which allowed us to continue to serve the customers of the consolidated branches, maintain the high level of service they expect, yet reduce operational expenses. These consolidations are projected to save approximately $2.3 million annually.

Expansion

On November 5, 2021, we completed our merger with Hancock Bancorp, Inc. the parent of Hancock Bank and Trust. The merger with Hancock expanded our presence in Kentucky and allows us to enter the attractive Bowling Green market. First Financial's assets have grown to approximately $5.2 billion, with 78 branch offices across Indiana, Illinois, Kentucky and Tennessee.

Focus on Diversity and Inclusion

Reflective of our communities, customers and associates, our Board includes members with diverse backgrounds and expertise in areas which are important to our business, customers and the communities we serve such as agriculture, automobile lending, banking, education, military, pensions, community organizations and state and local government. In 2021, Susan Jensen joined our Board of Directors. Over the last 30 months, First Financial Corporation and First Financial Bank have added nine directors to their respective boards. To advance our initiatives, we have created a Diversity, Equity and Inclusion Officer position to develop and lead our diversity and inclusion program.

Photo (above): New signage is installed in Madisonville, KY

Driving growth in an unprecedented environment.

13.46%
Total Asset Growth

33 Years
Consecutive Dividend Increases

$2.8 Billion
Loans Outstanding

$4.4 Billion
Deposits

$53 Million
Net Income

$4.02
Fully Diluted Earnings Per Share

$583 Million
Shareholders Equity

Building deeper connections in Kentucky

This year's cover features the Big Four walking bridge, which connects Indiana and Kentucky.

The bridge represents our organization's expansion, and the relationships we're building in Kentucky, Tennessee and beyond.

In December 2021, First Financial Corporation completed the merger with Hancock Bancorp, Inc. This added seven banking center locations in the Bowling Green, Kentucky region.

"We look forward to serving our customers in the Cloverport, Lewisport, Hawesville, Madisonville and Bowling Green communities."

Norman L. Lowery
Chairman, CEO, and President

Photo (above): First Financial Bank signs light up at dusk at our Crossings Boulevard location in Bowling Green, KY.

Focus on Community

Focusing on the communities we serve is essential to our success. During 2021, we continued to support our customers and communities through various initiatives, some of which include:

- $132.6 million in Community Reinvestment Act ("CRA") loans to 804 small businesses;

- $58.1 million of CRA small farm loans to 441 borrowers;

- $12 million in Community Development Loans, including loans for affordable housing, employment and workforce programs for disabled individuals, parent-child education services and delivery of meals to home-bound senior citizens;

- $17.1 million in loans to borrowers in low- or moderate-income census tracts;

- $10.1 million invested in philanthropic and community organizations;

- Funding the Ivy Tech Students First Scholarship, which awards nine $1,000 scholarships to students who are the first generation in their family to attend college; and,

- The contribution of thousands of volunteer hours by our generous associates to charitable, fundraising, and social events throughout our footprint.

ESG

A priority in 2021 was to assess how ESG issues affect our business, long-term success and sustainability. As mentioned, the shareholders we met with in 2021 were deeply interested in and broadly supportive of our overall philosophy on ESG matters. You can learn more about our ESG strategy in our 2021 ESG report, which is located at first-online.bank/esg.

Photo (above): Our dedicated Crossings team in Bowling Green, KY: Leatrice Butts, Allison Murray, Stacey Turner, April King, Haley Crawford, David Smith, Jeremy Jones, Christal McKinney, Joyce Grigsby, Melody Miller, Chuck Coffey, Oren Wilson, and Joe Williams

Recognition

Once again, First Financial and our hardworking associates received recognition from independent rating organizations, customers and the communities we serve. Following are a few of the accolades we received in 2021:

- First Financial Bank was named "One of America's Best Banks" by Forbes;
- For the 12th consecutive year, First Financial Bank was named "Best Bank" in the Terre Haute Tribune Star Readers' Choice Awards and was also recognized as the "Best Mortgage Company" and as having "Best Bank Teller – Lori Roberts" and "Best Financial Advisor – John Ayre";
- Cheatham County Exchange Newspaper, Main Street Awards, named First Financial Bank as "Best Bank", "Best Mortgage Lender" and "Best Investment Services/ Financial Planner";
- The nation's largest independent bank rating and research firm, BauerFinancial, Inc., awarded First Financial Bank and The Morris Plan Company of Terre Haute, Inc. a Five-Star rating based on their strength and soundness; and
- First Financial Bank was again one of the nation's top farm lenders by volume, reflecting the Bank's long-standing commitment to Agriculture.

Thanks and Gratitude

I would like to thank our Board of Directors for their continued support, vision and commitment to the success of First Financial Corporation and to our goal of creating value for our shareholders.

I also want to thank my associates and our experienced management team for their dedication and hard work. Our success is only possible through them. I cannot thank them enough for meeting and successfully overcoming the extraordinary challenges of the last two years.

I want to thank our customers and the communities we serve for their continued business and support through the challenging circumstances and the mandates of the pandemic.

Finally, I want to thank you, my fellow shareholders, for your confidence and investment in First Financial Corporation. I hope each of you can join us virtually at our 2022 Annual Meeting of Shareholders on Wednesday, April 20, 2022, at 11:00 AM (EST).

You may join the meeting at virtualshareholdermeeting.com/THFF2022.

Sincerely,

Norman L. Lowery
Chairman, CEO, and President

Photo (top right): Our enthusiastic Terre Haute, IN, Main Office Mortgage Lending team celebrate the end of masking. Lauren Edrington, Melinda Moss, Cindy Porter, Irene Ang, Tara Hasler, Moira Nichols, Nancy Adams, Rhonda Maurer, Angie Judson, Heather Rooksberry, Alyson Burns, Dave Gedde, Brandon Bennett, Bruce Wilcox, Jim Winning, and Tressa Clerk

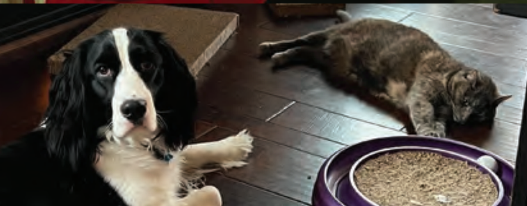
Our hard-working Lake Street team in Fulton, KY: Sandy Sublette, Teresa Moreland, Mary Margaret Joyner, Tammy Hicks, Mallory Graves, Dana Swearingen, and Lisa Moss

Celebrating another year of growth.

To our associates, shareholders and customers,

Thank You.

NOW
PLAYING
POPCORN



I'M A
First

LIVE UNITED
United Way
United Way of Daviess County
Hello

Supporting high school athletes on the court and on the field

First Financials' commitment to area high school programs is unwavering. First sponsors the First Financial Wabash Valley Classic, a 16-team open-class basketball tournament, held during Christmas break.

First associate Ticia Wright is the tournament director, ensuring the 4-day event runs like a well-oiled machine.

After a year with no fans allowed to attend athletic events, the 2021 tournament was well attended, with stands often packed with fans supporting their student athletes.

Ticket sales help raise funds for the participating high school athletics programs.

Another favorite is the Wabash Valley Football All-Star game held in August. The Black and Gold teams are comprised of Senior year players from area schools and is held at Indiana State University's Memorial Stadium in Terre Haute.

The game allows student athletes from across the region an opportunity to play together one last time, showcase their talents, and a chance to receive one of the scholarships awarded at the event.

Photo (below): Anthonio Nieves of South Vermillion High School accepts the Jay Barrett Athletic Foundation Scholarship. Pictured from left to right: Terre Haute North Football Coach Chris Barrett (son of Jay Barrett), Norm D. Lowery (Chief Operating Officer), Anthonio Nieves, and South Vermillion Football Coach Greg Barrett (son of Jay Barrett)

Photo (right): Terre Haute North players and fans celebrate together with their 2021 Wabash Valley Classic championship trophy.

FINAL
FOUR
1977
1978
CARMEN

We
Care
Believe

Please stay
6 feet apart.
HAUTE
Indiana

Combating identity theft and helping the environment one box and bag at a time

Some do not have access to a shredder, others may let their personal papers collect a little too long. Regardless of circumstance, it is important to properly destroy important records to reduce the risk of identity theft.

Each year First Financial hosts free community shred days during which community members bring their personal banking, tax, medical, and other records for safe and secure shredding.

Documents are shredded on location by certified data destruction specialists to ensure each is handled properly. This is one small way First promotes identify theft protection.

Photo (above): Norm D. Lowery, Chief Operating Officer, unloads paper documents for community members dropping them off for shredding during the Shred Day in Terre Haute, Indiana.

Photo (right): Giveaways rest on a golf bag while a Union Health Foundation golf outing participant prepares to putt. The Union Health Foundation raises hundreds of thousands of dollars each year to improve the health of our community, fund education, care for patients, provide hospital equipment and more.

Putting for education and health in our communities

Whether through contributions or event sponsorship First Financial is dedicated to helping programs which support community organizations and the wellbeing of others.

Golf outings raise needed funds for charities and community organizations. 2021 included events for the Boys & Girls Club, Gibault Child Services, Hamilton Center behavioral health, Union Health, the Valley Professionals Community Health Center and Ivy Tech Community College.

The Ivy Tech Scholarship Scramble raises thousands of scholarship dollars each year to help remove financial barriers for students pursuing their education.

Together We Care
ST FINANCIAL BANK
ORTS NEWTON EAGLES

87
COLTS
FOOTBALL
18

First
FRIENDS

Making a difference in every community

Teams across First Financial individually and collectively support a wide range of causes each year to positively impact the communities we serve through Fair Share Contributions, payroll donations, and spreading awareness for various causes such as the United Way, breast cancer and more.

In April 2021, associates at the Erin, Tennessee banking center came together to promote Autism Awareness.

Our devoted Erin, TN team: Jasmine Kizer, and Alyssa Barnes; Back: Kalie Lewis, Cynthia Woods, and Melanie Teff

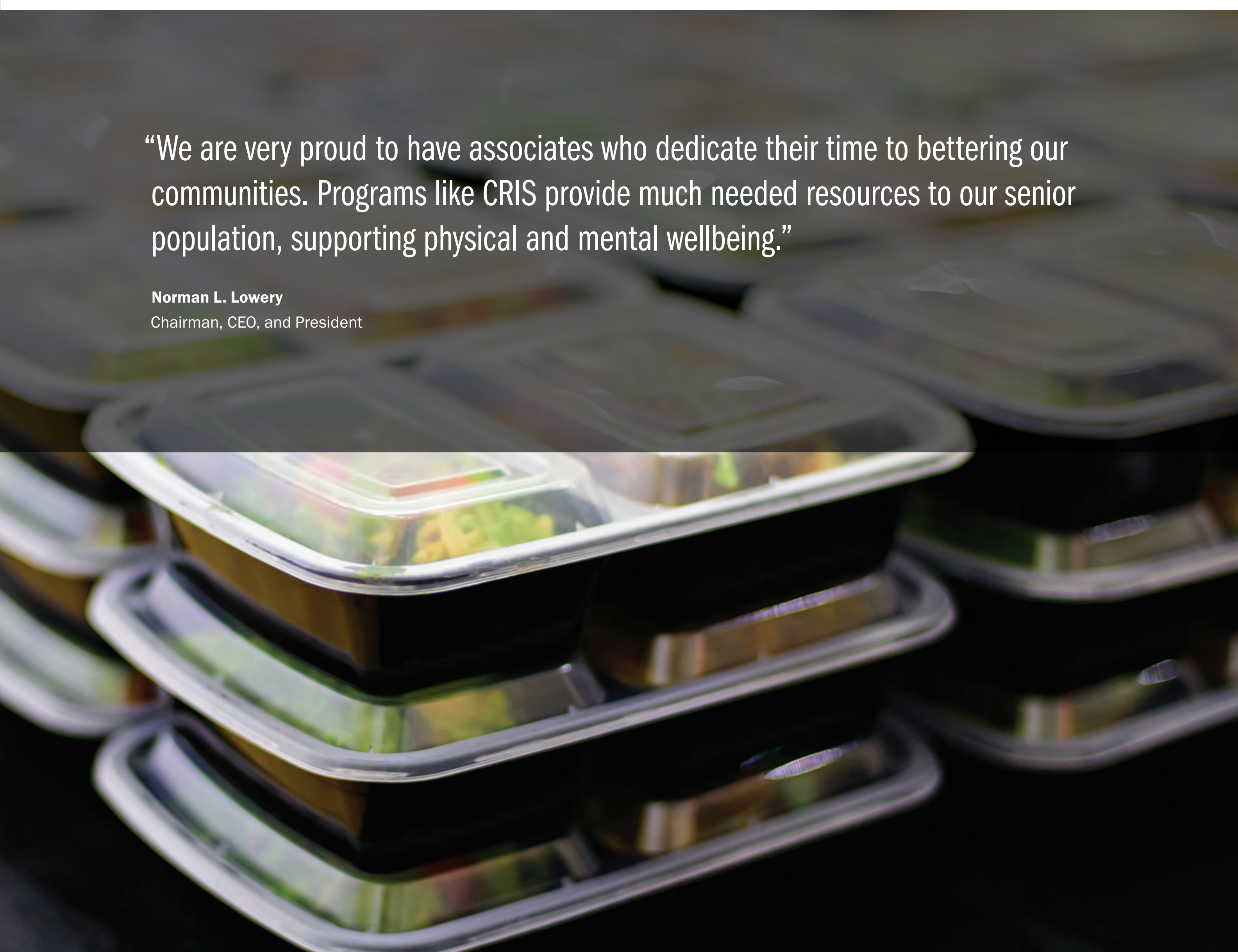
Delivering meals to hundreds

CRIS is a non-profit organization that has served East Central IL for over 48 years. CRIS promotes healthy, active lifestyles for people aged 60 and older through education, health, financial and social supportive services.

One of their programs, Meals on Wheels, delivers nutritional meals daily to homebound seniors free of charge.

Adam Stonecipher, a First associate at Towne Centre, Danville, IL coordinates weekly Meals on Wheels routes to some of the 430 senior residents in the area who receive support through this program.

Photo (below): Prepared meals ensure seniors receive nutrition each day, but the larger mission of Meals on Wheels is also to help minimize isolation, support independence, and improve quality of life of seniors.



"We are very proud to have associates who dedicate their time to bettering our communities. Programs like CRIS provide much needed resources to our senior population, supporting physical and mental wellbeing."

Norman L. Lowery
Chairman, CEO, and President

Continuing traditions

Fulton, Kentucky team members participated in the 59th Annual Banana Festival parade. This long-standing, widely attended event celebrates Fulton's history as having the only ice house on the Illinois Central Gulf Railroad route north to Chicago.

First Financial is a sponsor of this family event each year. Because the week-long festival brings people from surrounding areas, the event supports the local economy.

Photo (above): 2021 Banana Festival Parade. Back row: Deborah Clifton, Tammy Hicks, Sandy Sublette, Dana Swearingen, and Lindsey Guhy; Front row: Faith O'Neill, Teresa Moreland, Morgan Joyner, Bee (Mary Margaret Joyner), and Adrienne Joyner; Child in front: Addie Ray Guhy

Spreading Christmas cheer

For 35 years, First Financial has sponsored Christmas in the Park held during the month of December in Deming Park, in Terre Haute, IN.

Nonprofit organizations decorate shelters throughout the park, converting it into a holiday wonderland for visitors.

In addition to the drive-thru display, visitors can also enjoy a ride on the Holiday Express train and enjoy hot chocolate.

2021 featured displays decorated by 19 different participants, competing for $13,500 in cash rewards to benefit their cause.

First has contributed $476,000 to organizations over the lifetime of the event.

Photo (below): 2021 Christmas in the Park lighting ceremony. Howard Mills, Senior MLO; Howard Greninger, event judge; Susan Tingley, event judge; Duke Bennett, Mayor of Terre Haute; Santa; Sally Whitehurst, Marketing Officer; and Bob Rhodes, BDO

A new card brings new opportunities

Supporting education at all levels is a priority for First.

The Hopkinsville Christian County Public Library (HCCPL) Student Card program allows students to access the Kentucky Virtual Library (KYVL), Libby and OverDrive virtual library mobile apps, and check out resources from HCCPL.

Distributed to over 1200 Christian County Public and private high school students, the program is about so much more than just a library card. It opens connections and doors to students that may not be able to physically visit the library, allowing access to virtual learning resources.

Historically, parents are responsible for materials checked out from the library by their children. Many working parents may not be able to get to the library, and it is even more difficult for students who live in outlying areas within Christian County.

The Student Card helps to level access for students that have a limited selection of reading and study material, providing virtual tools and resources to help build academic success in the classroom.

Now in it's second year, we are the proud sponsor of this program, and know it's positive impact on students is only beginning.

"We are extremely humbled to team up with the library and school system for such a great program. The library cards are an invaluable tool, aiding in a high-quality education. As advocates for education, we believe each student should have equal access to the resources needed for success."

Norman L. Lowery
Chairman, CEO, and President

CASY continues to help young people thrive

Chances and Services for Youth is a nonprofit organization working every day to help underserved youth.

The organization provides a range of programing including an after-school program, Big Brothers Big Sisters, Camp RAVE. Tobacco-Free Vigo, and Teen Court.

As a proud CASY community supporter, First Financial was the 2021 Floor Sponsor for the Dancing with the Terre Haute Stars competition, marking our 15th year of support for the event.

Each year, community members compete to raise the most funds for the organization as they learn a dance routine that premieres at the event each Fall. 2021 was a record year, raising $282,000.

Photo (left): Welcome sign in front of HCCPL in Hopkinsville, KY

Photo (above): Dancers with their instructors gather with their awards. 2021 Dancers in alphabetical order: Kathy Emmert, Michelle Hein, Danielle Isbell, Kera Jeffers, Bryan Johnson, Dr. Megan Kirk, Spencer Kunz, Broc Lough, Kara McIntosh, Nikki O'Laughlin, Allison Prose, and Tim Sanders

Meet our new board member

Susan M. Jensen, *News Director*
Mrs. Jensen has been a news director and anchor with a long history working for community organizations. She serves on the Board of Governors for the Ohio Valley Chapter of the National Academy of Television Arts and Sciences.

Her work has been recognized by the Associated Press, Society of Professional Journalists, Indiana Broadcasters Association and the Indiana State Teachers Association.

First Financial Corporation and First Financial Bank Board of Directors

Mark J. Blade
W. Curtis Brighton
Michael A. Carty
Thomas T. Dinkel
Gregory L. Gibson
Susan M. Jensen
William R. Krieble
Norman D. Lowery
Norman L. Lowery
James O. McDonald
Tina J. Maher
Thomas C. Martin
Paul J. Pierson
Ronald K. Rich
Richard J. Shagley
William J. Voges

Morris Plan Board of Directors

Jeffrey Belskus
Mark J. Fuson
Steven Holliday
Norman D. Lowery
James F. Nasser
John Wright

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

FORM 10-K

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2021

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

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 ☐

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 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 (Do not check if a smaller reporting company)	☐	Smaller reporting company	☐
Emerging growth company	☐		

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☑

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, 2021 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 $491,919,028. (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, 2022—12,470,926 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Definitive Proxy Statement for the First Financial Corporation Annual Meeting of Shareholders to be held April 20, 2022 are incorporated by reference into Part III.

FIRST FINANCIAL CORPORATION
2021 ANNUAL REPORT ON FORM 10-K
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FIRST FINANCIAL CORPORATION
2021 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 2021 the Corporation and its subsidiaries had 883 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 nine full-service banking branches within the county; three in Clay County, Ind.; one in Daviess County, Ind.; one in Greene County, Ind.; one in Knox County, Ind.; two in Parke County, Ind.; one in Putnam County, Ind., three in Sullivan County, Ind.; one in Vanderburgh, County, Ind.; three in Vermillion County, Ind.; four in Champaign County, Illinois; one in Clark County, Ill.; two in Coles County, Ill.; two in Crawford County, Ill.; one in Franklin County, Ill.; one in Jasper County, Ill.; two in Jefferson County, Ill.; one in Lawrence County, Ill.; two in Livingston County, Ill.; two in Marion County, Ill.; two in McLean County, Ill.; one in Richland County, Ill.; six in Vermilion County, Ill.; one in Wayne County, Ill; one in Breckinridge County, Kentucky; two in Calloway County, Ky; three in Christian County, Ky; two in Fulton County, Ky; two in Hancock County, Ky; two in Hopkins County, Ky; two in Marshall County, Ky; one in Todd County, Ky; one in Trigg County, Ky; two in Warren County, Ky; three in Cheatham County, Tennessee; one in Houston County, Tn; and three in Montgomery County, Tn. There are four loan production offices, one in Hamilton County, Indiana; one in Vanderburgh County, Indiana; one in Rutherford County, Tennessee; and one in Williamson County, Tn. 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. 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. JBMM, LLC, Heritage USA Title LLC, and Fort Webb LP, LLC are all located in Christian County, Ky.

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, east-central Illinois, western Kentucky, and central Tennessee. 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.

The CARES Act

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

The CARES Act includes a provision that permits a financial institution to elect to suspend temporarily troubled debt restructuring accounting under ASC Subtopic 310-40 in certain circumstances (“section 4013”). To be eligible under section 4013, a loan modification must be (1) related to COVID-19; (2) executed on a loan that was not more than 30 days past due as of December 31, 2019; and (3) executed between March 1, 2020, and the earlier of (A) 60 days after the date of termination of the National Emergency or (B) December 31, 2020. In response to this section of the CARES Act, the federal banking agencies issued a revised interagency statement on April 7, 2020 that, in consultation with the Financial Accounting Standards Board, confirmed that for loans not subject to section 4013, short-term modifications made on a good faith basis in response to

COVID-19 to borrowers who were current prior to any relief are not troubled debt restructurings under ASC Subtopic 310-40. This includes short-term (e.g., up to six months) modifications such as payment deferrals, fee waivers, extensions of repayment terms, or delays in payment that are insignificant. Borrowers considered current are those that are less than 30 days past due on their contractual payments at the time a modification program is implemented.

Section 1102 of the CARES Act created the Paycheck Protection Program ("PPP"), a program administered by the SBA to provide loans to small businesses for payroll and other basic expenses during the COVID-19 pandemic. First Financial has participated in the PPP as a lender. These loans are eligible to be forgiven if certain conditions are satisfied and are fully guaranteed by the SBA. Additionally, loan payments will also be deferred for the first six months of the loan term. The PPP started on April 3, 2020, and was available to qualified borrowers through August 8, 2020. No fees can be charged to recipients by the government or lenders. Additional revisions to the SBA's interim final rules on forgiveness and loan review procedures are anticipated to be forthcoming to address these and related changes. On December 27, 2020, the President signed into law omnibus federal spending and economic legislation titled the "Consolidated Appropriations Act" that included the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act (the "HHSB"). Included in the act, the HHSB renewed the PPP, allocating $284.45 billion for both new first time PPP loans under the exiting PPP and the expansion of existing PPP loans for certain qualified, existing PPP borrowers. In addition to extending and amending the PPP, the HHSB also creates a new grant program for "shuttered venue operators." As a participating lender, First Financial Bank continues to monitor legislative, regulatory, and supervisory developments related thereto, including the most recent changes implemented by the HHSB.

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.

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. Specifics 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.

Fully phased in on January 1, 2019, the Basel III Capital Rules 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 phased in over a four-year period (increasing by that amount on each subsequent January 1, until it reached 2.5% on January 1, 2019).

Under the Basel III Capital Rules, the minimum capital ratios as of January 1, 2019 are as follows:

- 7.00% CET1 to risk-weighted assets;
- 8.50% Tier 1 capital to risk-weighted assets; and
- 10.50% Total capital to risk-weighted assets.

Certain regulatory capital ratios for the Corporation as of December 31, 2021, are shown below:

- 14.37% CET1 to risk-weighted assets;
- 14.37% Tier 1 capital to risk-weighted assets;

- 15.63% Total capital to risk-weighted assets; and
- 9.83% leverage ratio.

Certain regulatory capital ratios for the Bank as of December 31, 2021, are shown below:

- 13.53% CET1 to risk-weighted assets;
- 13.53% Tier 1 capital to risk-weighted assets;
- 14.78% Total capital to risk-weighted assets; and
- 9.18% leverage ratio.

Certain regulatory capital ratios for Morris Plan as of December 31, 2021, are shown below:

- 27.99% CET1 to risk-weighted assets;
- 27.99% Tier 1 capital to risk-weighted assets;
- 29.29% Total capital to risk-weighted assets; and
- 27.45% 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 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 non-banking 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 was 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 $1.3 million and Morris Plan paid a total FDIC assessment of $27 thousand in 2021.

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, 2021, the Bank and Morris Plan were each "well capitalized" based on the aforementioned ratios.

Temporary Regulatory Capital Relief Related to Impact of CECL. Concurrent with enactment of the CARES Act, in March 2020, the OCC, the Board of Governors of the Federal Reserve System, and the FDIC published an interim final rule to delay the estimated impact on regulatory capital stemming from the implementation of CECL. The interim final rule maintains the three-year transition option in the previous rule and provides banks the option to delay for two years an estimate of CECL's effect on regulatory capital, relative to the incurred loss methodology's effect on regulatory capital, followed by a three-year transition period (five-year transition option). The Corporation did not adopt the capital transition relief.

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 involves risk, some of which, including market, liquidity, credit, operational, legal, compliance, reputational, and strategic risks, could be substantial and is inherent in our business. This risk also includes the possibility that the value of the investment could decrease considerably, you could lose all or part of your investment, and dividends or other distributions concerning the investment could be reduced or eliminated. Discussed below are the most significant risks and uncertainties that management believes could adversely affect our financial results and condition, as well as the value of, and return on, an investment in the Corporation. 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.

Risks Related to Economic and Market Conditions

Economic conditions have affected and could adversely affect our revenue and profits.

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 U.S. as a whole. An economic downturn or sustained, high unemployment levels, inflation, supply chain disruptions that impact borrowers, recession, currency devaluation, changes in the monetary supply, decreased investor or business confidence, trade wars and the imposition of tariffs on goods purchased or sold by our customers, the effect of a pandemic, epidemic, or outbreak of an infectious disease on our customers, stock market volatility, and other factors beyond our control may 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, demand for loans and other products and services we offer, and our deposit levels and composition. As a result, our operating results could be negatively impacted.

Continued elevated levels of inflation could adversely impact our business and results of operations.

The United States has recently experienced elevated levels of inflation, with the consumer price index reaching approximately 7.0% in late 2021. Continued levels of inflation could have complex effects on our business and results of operations, some of which could be materially adverse. While we generally expect any inflation-related increases in our interest expense to be offset by increases in our interest revenue, inflation-driven increases in our levels of non-interest expense could negatively impact our results of operations. Additionally, if interest rates were to rise, we could see consumer sentiment shift and demand for loans may decrease which would impact our results of operations. Continued elevated levels of inflation could also increase volatility and uncertainty in the business environment, which could adversely affect loan demand and our clients’ ability to repay indebtedness. It is also possible that governmental policy responses to the current inflation environment could further affect our business, such as changes to monetary and fiscal policy. The duration and severity of the current inflationary period, and the governmental responses thereto, are unknown and cannot be estimated with precision.

Changes in interest rates could adversely affect the Corporation's results of operations and financial condition.

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, domestic and international events, changes in U.S. and other financial markets, 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 the Corporation's ability to originate loans and obtain deposits and the fair value of the Corporation's financial assets and liabilities.

If the interest rates paid on deposits and other interest-bearing liabilities increase at a faster rate than the interest rates received on loans and other interest-earning assets, our net interest income, and, therefore, our earnings, could be adversely affected. Such an interest rate environment may also result in us incurring a higher cost to retain our deposits. While the higher payment amounts we would receive on adjustable-rate or variable-rate loans in a rising interest rate environment may increase our interest income, some borrowers may be unable to afford the higher payment amounts, and this could result in a higher rate of default. Rising interest rates also may reduce the demand for loans and the value of fixed-rate investment securities. Accordingly, changes in interest rates could adversely affect our results of operations and financial condition.

Labor shortages and the loss of one or more of those key personnel may materially and adversely affect our business.

Our success depends, in large part, on our ability to attract and retain key personnel. Key personnel that have regular direct contact with customers and clients often build strong relationships that are important to our business. In addition, we rely on key personnel to manage and operate our business, including major revenue producing functions, such as loan and deposit generation. Competition for qualified personnel in the financial services industry can be intense and we may not be able to hire or retain the key personnel that we depend upon for success. Frequently, we compete in the market for talent with entities that are not subject to comprehensive regulation. The competition for talent has become exacerbated by the labor shortage in the U.S. caused by the increase in employee resignations as a result of the COVID-19 pandemic, which is commonly referred to as the "great resignation." The "great resignation" has been, and continues to be, felt across all levels of employment. The unexpected loss of services of one or more of our key personnel could have a material adverse impact on our business because of their skills, knowledge of the markets in which we operate, years of industry experience, and the difficulty of promptly finding qualified replacement personnel. Also, the loss of key personnel could jeopardize our relationships with customers and clients and could lead to the loss of accounts. Losses of accounts managed by key personnel could have a material adverse impact on our business.

Terrorist attacks, threats or actual war, natural disasters, global climate change, pandemics, other catastrophic events, trade policies, civil unrest, protests, and other global and domestic conflicts may impact all aspects of our operations, revenues, costs, and stock price in unpredictable ways.

Terrorist attacks in the U.S. and abroad, as well as future events occurring in response to or in connection with them, including, without limitation, future terrorist attacks against U.S. targets, rumors or threats of war, actual conflicts involving the U.S. or its allies, or military or trade disruptions, may impact our operations. In addition, natural disasters, global climate change, pandemics (in addition to the COVID-19 pandemic), other catastrophic events, trade policies, domestic civil unrest, protest, and other global or domestic conflicts may impact our operations as well. Any of these occurrences could have an adverse impact on our operating results, revenues, and costs and may result in the volatility of the market price for our common stock and on the future price of our common stock.

The COVID-19 pandemic has had and may continue to have an adverse effect on the Corporation's business operations, asset valuations, financial condition, profitability as a result of potential increased credit risk of our borrowers and results of operations.

While progress has been made in efforts to contain the COVID-19 pandemic, including vaccinations, and some restrictions have relaxed, new variants of the virus have and may continue to have, significant economic and policy impacts. Even with these efforts to contain the pandemic, it is possible that continued developments, including new variants, could adversely affect

the Corporation's operations, asset valuations, financial condition, profitability as a result of potential increased credit risk of our borrowers, and results of operations. Notwithstanding our contingency plans and other safeguards against pandemics or another contagious disease, the spread of COVID-19 or new variants could also negatively impact the availability of our personnel who are necessary to conduct our business operations, as well as potentially impact the business and operations of our third-party service providers who perform critical services for us. Material adverse impacts as a result of the COVID-19 pandemic may include all or a combination of valuation impairments on our intangible assets, investments, loans, loan servicing rights, deferred tax assets, or counter-party risk derivatives. Banks, such as the Corporation, still face a risk of potential COVID-19 litigation alleging the mishandling of the Paycheck Protection Program ("PPP") loans, violations of executive orders and regulatory guidance prohibiting or limiting debt collection, evictions and foreclosures, discriminatory program administration, workplace safety claims and claims alleging minimization in securities filings of the COVID-19 effect on operations. The dynamic nature of COVID-19, and policies adopted to combat the pandemic, make it difficult to project the impact it will have on the Corporation's business.

Our participation in the SBA Paycheck Protection Program ("PPP") exposes us to credit risk and regulatory enforcement risk, which could have a material adverse impact on our business, financial condition, and results of operations.

The Corporation was a participating lender in the PPP, a loan program administered through the SBA, which was created to help eligible businesses, organizations and self-employed persons fund their operational costs during the COVID-19 pandemic. Under this program, the SBA guaranteed 100% of the amounts loaned under the PPP The Corporation made total loans under the PPP program in the amount of $275.1 million, of which all but $27.2 million have been forgiven by the SBA. The Corporation may be exposed to credit risk on a PPP loan (even if such loan has been forgiven) if a determination is made by the SBA that there is a deficiency in the manner in which these loans were originated, funded, or serviced. If a deficiency is identified, the SBA may deny its liability under the guaranty, reduce the amount of the guaranty or, if it has already paid under the guaranty, seek recovery of any loss related to the deficiency from the Corporation.

Geographic concentration of the Corporation's markets makes our business highly susceptible to local economic conditions and a downturn in local economic conditions may adversely affect our business.

Unlike larger banking organizations that are more geographically diversified, the Corporation's operations are currently concentrated in west central Indiana, east central Illinois, western Kentucky, and middle and western Tennessee, and most of our customers are located in these markets. The economic conditions in these local markets may be different from, and in some instances be worse than, the economic conditions in the U.S. as a whole. 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 markets could result in one or more of the following, which may adversely affect our business:

- an increase in loan delinquencies;
- an increase in problem assets and foreclosures;
- an increase in our allowance for credit losses;
- a decrease in the demand for our products and services;
- 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;
- a decrease in net worth and liquidity of loan guarantors, which may impair their ability to honor guarantees made to us; and
- a decrease in deposits balances.

Changes to the London Inter-Bank Offered Rate ("LIBOR") may adversely impact the value of, and the return on, our financial instruments that are indexed to LIBOR.

The Corporation and its subsidiaries have financial instruments which have a rate indexed to LIBOR. On July 27, 2017, the United Kingdom Financial Conduct Authority, which regulates LIBOR, announced that it will no longer persuade or compel banks to submit rates for the calculation of LIBOR to the administrator of LIBOR after 2021. This announcement indicates that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. In late 2020, the LIBOR administrator published a consultation regarding its intention to delay the date on which it will cease publication of U.S. dollar LIBOR from December 31, 2021 to June 30, 2023 for the most common tenors of U.S. dollar LIBOR, including the three-month LIBOR, but indicated no new contracts using U.S. dollar LIBOR should be entered into after December 31, 2021.

Publication of a non-U.S. dollar LIBOR would continue to cease after December 31, 2021. Notwithstanding the publication of this consultation, there is no assurance of how long LIBOR of any currency or tenor will continue to be published. It is impossible to predict whether and to what extent banks will continue to provide LIBOR submissions to the administrator of LIBOR, whether LIBOR rates will cease or continue to be published before or after December 31, 2021 or June 30, 2023, as applicable, or whether any additional reforms to LIBOR may be enacted in the United Kingdom or elsewhere.

As a result of the 2017 announcement, regulators, industry groups, and committees have, among other things, published recommended fallback language for financial instruments indexed to LIBOR, identified and recommended alternatives to LIBOR, and proposed implementations of the recommended alternatives in floating-rate financial instruments. For example, in June 2017, the Alternative Reference Rate Committee, a committee of private-market derivative participants and their regulators convened by the Federal Reserve to identity alternative reference interest rates, announced a Secured Overnight Funding Rate, a broad Treasuries overnight repurchase agreement (repo) financing rate, as its preferred alternative to U.S. dollar LIBOR. It is currently unknown whether any of these recommendations and proposals will be broadly accepted, whether they will continue to evolve, and what effect of their implementation may have on the markets for floating-rate financial instruments. Uncertainty as to the nature of alternative reference rates and as to potential changes or other reforms to LIBOR may adversely affect LIBOR and the value of financial instruments indexed to LIBOR in our portfolio and may impact the availability and cost of hedging instruments and borrowings.

Transition from LIBOR could create considerable costs and additional risk for us. Since proposed alternative reference rates are calculated differently, payments under contracts indexed to new rates will differ from those indexed to LIBOR. The transition will change our market risk profiles, requiring changes to risk and pricing models, valuation tools, product design, and hedging strategies. Further, our failure to adequately manage this transition process with our customers could impact our reputation and may subject us to disputes or litigation with our customers over the appropriateness or comparability to LIBOR of the substitute indices. Although we are currently unable to assess what the ultimate impact of the transition from LIBOR will be, any market-wide transition away from LIBOR could have an adverse effect on our business, financial condition and results of operations.

Risks Related to Our Business

When we loan money, commit to loan money, or enter into a letter of credit or other contract with a counterparty, we incur credit risk, or the risk of loss if our borrowers do not repay their loans or our counterparties fail to perform according to the terms of their contracts.

As lending is one of our primary business activities, the credit quality of our portfolio can have a significant impact on our earnings. We estimate and establish reserves for credit risks and probable incurred credit losses that are inherent in our loan portfolio. This process, which is critical to our financial results and condition, requires difficult, subjective, and complex judgments, including reviews of economic conditions and how these economic conditions might impair the ability of our borrowers to repay their loans. There is the chance that we will fail to identify the proper factors or that we will fail to accurately estimate the impacts of factors that we identify. In addition, large loans, letters of credit, and contracts with individual counterparties in our portfolio magnify the credit risk that we face, as the impact of large borrowers and counterparties not repaying their loans or performing according to the terms of their contracts has a disproportionately significant impact on our credit losses and reserves.

The information that we use in managing our credit risk may be inaccurate or incomplete, which may result in an increased risk of default and otherwise have an adverse effect on our business, results of operations, and financial condition.

In deciding whether to extend credit or enter into other transactions with clients and counterparties, we may rely on information furnished by or on behalf of clients and counterparties, including financial statements and other financial information. We also may rely on representations of clients and counterparties as to the accuracy and completeness of that information and, with respect to financial statements, on reports of independent auditors. Default risk may arise from events or circumstances that are difficult to detect, such as fraud. Moreover, such circumstances, including fraud, may become more likely to occur or be detected in periods of general economic uncertainty. We may also fail to receive full information with respect to the risks of a counterparty. In addition, in cases where we have extended credit against collateral, we may find that we are under-secured, for example, as a result of sudden declines in market values that reduce the value of collateral or due to fraud with respect to such collateral. If these events or circumstances were to occur, it could result in a potential loss of revenue and have an adverse effect on our business, results of operations, and financial condition.

New accounting standard, effective January 1, 2020, significantly changes how we recognize credit losses and may have a material impact on our financial condition or results of operations.

Effective January 1, 2020, the Corporation implemented the provision of Accounting Standards Update ("ASU") 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." ASU 2016-13 represents a comprehensive change in estimating the allowance for credit losses from the previous "incurred loss" model of losses inherent in the loan portfolio to a current "expected loss" model, which encompasses losses expected to be incurred over the life of the portfolio.

The measurement of expected credit losses under ASU 2016-13 is based on information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. This measurement will take place at the time the financial asset is first added to the balance sheet and periodically thereafter. This differs significantly from the "incurred loss" model previously required under generally accepted accounting principles, which delays recognition until it is probable a loss has been incurred. Accordingly, we expect that the adoption of ASU 2016-13 could materially affect how we determine our allowance for credit losses and may require us to significantly increase our allowance. Moreover, ASU 2016-13 may create more volatility in the level of our allowance for credit losses. If we are required to materially increase our level of allowance for credit losses for any reason, such increase could adversely affect our business, financial condition and results of operations.

The Corporation operates in a highly competitive industry and market, and our business will suffer if we are unable to compete effectively.

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. Our competitors include banks, 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 has significant exposure to risks associated with commercial and commercial real estate loans.

As of December 31, 2021, approximately 59.5% of the Corporation's loan portfolio consisted of commercial and commercial real estate loans. These loans are generally viewed as having more inherent risk of default than residential mortgage or consumer loans. The repayment of these loans often depends on the successful operation of a business. These loans are more likely to be adversely affected by weak conditions in the economy. Also, the commercial loan balance per borrower is typically

larger than that of residential mortgage loans and consumer loans, indicating higher potential losses on an individual loan basis. The deterioration of one or a few of these loans could cause a significant increase in nonperforming loans and a reduction in interest income. An increase in nonperforming loans could result in an increase in the provision for loan losses and an increase in loan charge-offs, both of which could have a material adverse effect on the Corporation's business, financial condition, and results of operations.

The Corporation's accounting estimates and risk management processes rely on analytical and forecasting models, which, if inadequate, may result in a material adverse effect on our business, financial condition, or results of operation.

The processes the Corporation uses to estimate its allowance for credit 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, depend 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 credit losses are inadequate, the allowance for credit losses may not be sufficient to support future charge-offs. If the models the Corporation uses to measure the fair value of our financial instruments are inadequate, the fair value of our financial instruments may fluctuate unexpectedly or may not accurately reflect what the Corporation could realize upon sale or settlement of our financial instruments. Any 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.

We are a community bank and our ability to maintain our reputation is critical to the success of our business.

The Corporation's banking subsidiaries are community banks and their reputation is one of the most valuable components of our business. A key component of our business strategy is to rely on our reputation for customer service and knowledge of local markets to expand our presence by capturing new business opportunities from existing and prospective customers in our current market and contiguous areas. As such, we strive to conduct our business in a manner that enhances our reputation. This is done, in part, by recruiting, hiring, and retaining employees who share our core values of being an integral part of the communities we serve, delivering superior service to our customers, and caring about our customers and associates. If our reputation is negatively affected by the actions of our employees, by our inability to conduct our operations in a manner that is appealing to current or prospective customers, or otherwise, our business and, therefore, our operating results, may be materially adversely affected.

Our operational systems and networks are subject to an increasing risk of continually evolving cybersecurity or other technological risks, which could result in a loss of customer business, financial liability, regulatory penalties, damage to our reputation, or the disclosure of confidential information.

Information technology systems are critical to our business. We use various technology systems to manage our customer relationships, general ledger, securities, deposits, and loans. Additionally, as part of our business, we collect, process, and retain personal, proprietary, and confidential information regarding our customers. 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 or business services disruptions. Any security breach could result in the misappropriation, loss, or unauthorized disclosure of sensitive customer information, severely damage our reputation, expose us to the risk of litigation and liability, disrupt our operations, and have a material adverse effect on our business.

We also rely on the integrity and security of a variety of third-party processors and 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. In addition, a number of our third-party service providers are large national entities with dominant market presence in their respective fields. Their services could prove difficult to replace in a timely manner if a failure or other service interruption were to occur. Failures of certain vendors to provide contracted services could adversely affect our ability to deliver products and services to our customers and cause us to incur significant expense.

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, which could negatively affect our reputation or result in litigation and, consequently, negatively affect our results of operation.

The occurrence of cybersecurity incidents across a range of industries has resulted in increased legislative and regulatory scrutiny over cybersecurity and calls for additional data privacy laws and regulations. These laws and regulations could result in increased operating expenses or increase our exposure to the risk of litigation.

The occurrence of a cybersecurity incident involving us, third party service providers, or our customers, 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. Furthermore, we may be required to expend significant additional resources to modify our protective measures or to investigate and remediate vulnerabilities or other exposures arising from operational and security risks. Any of these events could have a material adverse effect on our financial condition and results of operations.

We rely on external vendors, which could expose the Corporation to additional operational risks.

The Corporation relies on 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, 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.

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.

The financial services industry is characterized by rapid technological change, and if we fail to keep pace, our business may suffer.

The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. The Corporation's future success depends, in part, upon its ability to address customer needs by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in the Corporation's operations. The Corporation may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to its customers. Further, many of our competitors have substantially greater resources to invest in technological improvements. Failure to successfully keep pace with technological change affecting the financial services industry could negatively affect the Corporation's growth, revenue, and profit.

A lack of liquidity could affect our operations and jeopardize our financial condition.

The Corporation requires liquidity to meet our deposit and other obligations as they come due. The Corporation's access to funding sources in amounts adequate to finance its activities or on terms that are acceptable to it could be impaired by factors

that affect it specifically or the financial services industry or the general economy. Factors that could reduce its access to liquidity sources include a downturn in the markets in which our loans are concentrated or adverse regulatory actions against the Corporation. The Corporation's access to deposits may also be affected by the liquidity needs of depositors. The Corporation may not be able to replace maturing deposits and advances as necessary in the future, especially if a large number of depositors sought to withdraw their deposits, regardless of the reason. A failure to maintain adequate liquidity could have a material adverse effect on the Corporation's business, financial condition, and result of operations.

The Corporation's controls and procedures may fail or be circumvented, and the Corporation's methods of reducing risk exposure may not be effective.

The Corporation's internal operations are subject to 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. We regularly review and update our internal controls, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls and any system to reduce risk exposure, however well designed and operated, is based in part on assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Additionally, instruments, systems, and strategies used to hedge or otherwise manage exposure to various types of market compliance, credit, liquidity, operational, and business risks and enterprise-wide risk could be less effective than anticipated. As a result, the Corporation may not be able to effectively mitigate its risk exposures in particular market environments or against particular types of risk.

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

Financial 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. These losses could have a material adverse effect on the Corporation's business, 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 interests and thereafter owns and operates foreclosed 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 the real property, and the Corporation may have to advance funds in order to protect its interests, 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's earnings may be adversely impacted due to environmental liabilities 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 loans which have defaulted. 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 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 Corporation's 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, may claim to hold intellectual property sold or licensed to the Corporation by its vendors. Intellectual property 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 alleged 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, which may be 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. The Corporation may also consider entering into licensing agreements for disputed intellectual property, however, these license agreements 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.

Changes in consumer use of banks and changes in consumer spending and savings habits could adversely affect the Corporation's financial results.

Technology and other changes now allow many customers to complete financial transactions without using banks. For example, consumers can pay bills and transfer funds directly without going through a bank. This process of eliminating banks as intermediaries could result in the loss of fee income, as well as the loss of customer deposits and income generated from those deposits. In addition, changes in consumer spending and savings habits could adversely affect the Corporation's operations, and the Corporation may be unable to timely develop competitive new products and services in response to these changes.

Potential acquisitions may disrupt the Corporation's business and dilute shareholder 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:

- the time and costs associated with identifying and evaluating potential new markets, hiring experienced local management, and opening new offices, and the time lags between these activities and the generation of sufficient assets and deposits to support the costs of the expansion;
- the time and costs associated with identifying potential acquisition and merger targets;
- the accuracy of the estimates and judgments used to evaluate credit, operations, management, and market risks with respect to a target company;
- the diversion of our management's attention to the negotiation of a transaction, and the integration of the operations and personnel of the combined businesses;
- our ability to finance an acquisition and possible dilution to our existing shareholders;
- closing delays and expenses related to the resolution of lawsuits filed by shareholders of targets;
- entry into new markets where we lack experience;
- introduction of new products and services into our business;
- potential exposure to unknown or contingent liabilities of the target company;
- exposure to potential asset quality issues of the target company;
- the risk of loss of key employees and customers; and

- incurrence and possible impairment of goodwill associated with an acquisition and possible adverse short-term effects on our results of operations.

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.

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 may not be able 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 restrictions 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 value of the Corporation's goodwill and other intangible assets may decline in the future.

As of December 31, 2021, the Corporation had $94.1 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 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 the 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 and/or the Morris Plan are 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 and/or the Morris Plan could have a material adverse effect on the Corporation's business, financial condition, and results of operations.

Risks Related to the Legal and Regulatory Environment

We operate in a highly regulated environment and the regulatory framework to which we are subject may adversely affect our results of operations.

The Corporation, the Bank, and the Morris Plan operate in a highly regulated environment and we are subject to extensive regulation, supervision, and examination by the Federal Reserve, the OCC, and the FDIC and DFI, respectively. Banking regulations are primarily intended to protect depositors' funds, federal deposit insurance funds, and the banking system as a whole, not our shareholders. Further, as a bank holding company, we are required to act as a source of financial and managerial strength to the Bank and the Morris Plan and to commit resources to support our subsidiary banks if needed. This regulatory framework affects our lending practices, capital structure, investment practices, and growth, among other things.

If, as a result of an examination, a banking regulatory were to determine that our financial condition, capital resources, asset quality, earnings prospects, management, liquidity, or other aspects of any of our operations had become unsatisfactory, or that we were in violation of any law or regulation, they may take a number of different remedial actions as they deem appropriate. These actions include the power to enjoin "unsafe or unsound" practices, to require affirmative action to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in our capital, to restrict our growth, to assess civil money penalties, to fine or remove officers and directors, and, if it is concluded that these conditions cannot be corrected or there is an imminent risk of loss to depositors, to terminate our deposit insurance and place us into receivership or conservatorship. Any regulatory action against us or failure to comply with applicable laws and regulations could have an adverse effect on our reputation, business, financial condition, and results of operations.

Legislative and regulatory actions taken now or in the future may increase our costs and impact our business, regulatory structure, financial condition, and/or results of operations.

Since the 2007-2008 financial crisis, federal and state banking laws and regulations, as well as interpretations and implementations of these laws and regulations, have undergone substantial review and change. In particular, the Dodd-Frank Act drastically revised the laws and regulations under which we operate. Financial institutions generally have also been subjected to increased scrutiny from regulatory authorities. These changes and increased scrutiny may result in increased costs of doing business, decreased revenues and net income, may reduce our ability to effectively compete to attract and retain customers, or make it less attractive for us to continue providing certain products and services. Any future changes in federal and state law and regulations, as well as the interpretations and implementations of federal and state laws and regulations, could affect us in substantial and unpredictable ways, including those listed above, impact the regulatory structure under which we operate, significantly increase our costs, impede the efficiency of our internal business processes, require us to increase our regulatory capital and modify our business strategy, limit our ability to pursue business opportunities in an efficient manner, or other ways that could have a material adverse effect on our business, financial condition, or results of operations. These changes also may require us to invest significant management attention and resources to make any necessary changes to operations to comply and could have an adverse effect on our business, financial condition, and results of operations.

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 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 have been phased in over time beginning in 2015 and became fully phased-in 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 of 6%, and (iii) total risk-based capital ratio of 8%. As fully phased in, the rules also require a capital conservation buffer of 2.5% on top of the foregoing minimum capital ratios, resulting in an effective requirement for minimum capital ratios of (a) common equity Tier 1 risk-weighted capital ratio of 7%, (b) Tier 1 risk-based capital ratio of 8.5%, and (c) 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 establish a maximum percentage of eligible retained income that could be utilized for these actions.

We face a risk of noncompliance and enforcement action with the Bank Secrecy Act and other anti-money laundering statutes and regulations.

The Bank Secrecy Act, the USA Patriot Act, and other laws and regulations require financial institutions, among other duties, to institute and maintain an effective anti-money laundering program and file suspicious activity and currency transaction reports as appropriate. The Federal Financial Crimes Enforcement Network is authorized to impose significant civil money penalties for violations of those requirements and has engaged in coordinated enforcement efforts with the other federal agencies, including federal banking regulators. We are also subject to increased scrutiny of compliance with the rules enforced by the U.S. Department of the Treasury's Office of Foreign Assets Control. If our policies, procedures and systems are deemed deficient, we could be subject to liability, including fines and regulatory actions, which may include restrictions on our ability to pay dividends and the necessity to obtain regulatory approvals to proceed with certain aspects of our business plan, including any acquisitions we desire to make. We could also incur increased costs and expenses to improve our anti-money laundering procedures and systems to comply with any regulatory requirements or actions. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could also have serious reputational consequences for us. Any of these results could have a material adverse effect on our business, financial condition, results of operations, and future prospects.

Higher FDIC deposit insurance premiums and assessments could adversely affect our financial condition.

FDIC insurance premiums we pay may change and be significantly higher in the future. Market developments may significantly deplete the insurance fund of the FDIC and further reduce the ratio of reserves to insured deposits, thereby making it requisite upon the FDIC to charge higher premiums prospectively.

We have risk related to legal proceedings.

We are involved in judicial, regulatory, and arbitration proceedings concerning matters arising from our business activities and fiduciary responsibilities. We establish reserves for legal claims when payments associated with the claims become probable and the costs can be reasonably estimated. We may still incur legal costs for a matter even if we have not established a reserve. In addition, the actual cost of resolving a legal claim may be substantially higher than any amounts reserved for that matter. The ultimate resolution of a pending or future legal proceeding, depending on the remedy sought and granted, could materially adversely affect our results of operations and financial condition.

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 shareholders. 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 and may make it more difficult for shareholders to resell their common stock when they want and at prices they find attractive. The Corporation's common stock price can fluctuate significantly in response to a variety of factors, including:

- announcements and news reports relating to the Corporation's business and trends, concerns, and other issues in the financial services industry generally;
- fluctuations in the Corporation's results of operations;
- sales or purchases of substantial amounts of the Corporation's securities in the marketplace;
- a shortfall or excess in revenues or earnings compared to securities analysts' expectations;
- changes in analysts' recommendations or projections;
- actual or expected economic conditions that are perceived to affect the Corporation, such as changes in real estate values or interest rates;
- perceptions in the marketplace regarding the Corporation and/or our competitors;
- new technology used, or services offered, by competitors;
- changes in applicable government regulation;
- macroeconomic and geopolitical factors discussed in this Risk Factors section; and
- the Corporation's announcement of new acquisitions or other projects.

As such, the market price of the Corporation's common stock may not accurately reflect the underlying value of the stock, and investors should consider this before relying on the market prices of the Corporation's common stock when making an investment decision.

Future capital needs could result in dilution of shareholder investment.

Our board of directors may determine from time to time there is a need to or, if our or the Bank's or the Morris Plan's regulatory capital ratios fall below the required minimums, we could be forced to raise additional capital through the issuance of additional shares of stock or other securities, including debt securities and senior or subordinated notes. We are currently authorized to issue up to 40 million shares of common stock, of which 12,629,893 shares were outstanding as of December 31,

2021, and up to 10 million shares of preferred stock, of which no shares are outstanding. Subject to certain limitations, our board of directors generally has authority, without action or vote of our shareholders, to issue all or part of the remaining authorized but unissued shares and to establish the rights, preferences, and privileges of any class or series of preferred stock. These equity and/or debt issuances could dilute the ownership interest of our shareholders and may dilute the per share book value of our common stock. New investors also may have rights, preferences, and privileges senior to our shareholders which may adversely impact our shareholders.

Anti-takeover laws and charter provisions may adversely affect the value of our common stock.

Provisions of state and federal law and our articles of incorporation may make it more difficult for someone to acquire control of the Corporation. Under federal law, subject to certain exemptions, a person, entity, or group must notify the federal banking agencies before acquiring 10% or more of the outstanding voting stock of a bank holding company, including the Corporation's common stock. There also are Indiana statutory provisions and provisions in our articles of incorporation that may be used to delay or block a takeover attempt. As a result, these statutory provisions and provisions in our articles of incorporation could result in the Corporation being less attractive to a potential acquiror.

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 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 one other facility in Terre Haute, which is a 50,000-square-foot building housing operations and administrative staff and equipment. In addition, the Bank holds in fee seven 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. Two other branch bank buildings are leased by the Bank. The expiration dates on the leases are May 30, 2023 and May 31, 2025.

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 center in Daviess County include an office in Washington, 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 center in Knox County include one office in Vincennes, Indiana. This building is held in fee.

Facilities of the Corporation's banking centers in Parke County include one office in Rockville, Indiana and one office in Marshall, Indiana. Both 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 centers in Sullivan County include offices in Sullivan, Dugger, and Farmersburg, Indiana. All three buildings are 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 Vermillion County include two offices in Clinton, Indiana and an office in Cayuga, Indiana. All three buildings are 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, 2022. The banking center in Mahomet is leased and the lease expires on June 4, 2024. The banking center in Urbana is 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 centers in Coles County include an office in Charleston, Illinois and an office in Mattoon, Illinois. These buildings are 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 center in Franklin County include an office in Benton, 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 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. A banking center in Bloomington is leased and the lease expires on June 30, 2026. The other building is held in fee.

Facilities of the Corporation’s banking center in Richland County includes an office in Olney, Illinois. This building 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, 2023 and the other five buildings are held in fee.

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

Facilities of the Corporation's banking center in Breckinridge County includes an office in Cloverport, Kentucky. The building is held in fee.

Facilities of the Corporation's banking center in Calloway County include two offices in Murray, Kentucky. The buildings are held in fee.

Facilities of the Corporation's banking center in Christian County include three offices in Hopkinsville, Kentucky. The buildings are held in fee.

Facilities of the Corporation's banking center in Fulton County include two offices in Fulton, Kentucky. The buildings are held in fee.

Facilities of the Corporation's banking center in Hancock County include an office in Hawesville, Kentucky, and an office in Lewisport, Kentucky. The buildings are held in fee.

Facilities of the Corporation's banking center in Hopkins County include two offices in Madisonville, Kentucky. The buildings are held in fee.

Facilities of the Corporation's banking center in Marshall County include an office in Benton, Kentucky, and an office in Calvert City, Kentucky. The buildings are held in fee.

Facilities of the Corporation's banking center in Todd County include an office in Elkton, Kentucky. The building is held in fee.

Facilities of the Corporation's banking center in Trigg County include an office in Cadiz, Kentucky. The building is held in fee.

Facilities of the Corporation's banking center in Warren County include two offices in Bowling Green, Kentucky. A banking center in Bowling Green is leased and the lease expires on September 30, 2023. The other building is held in fee.

Facilities of the Corporation's banking center in Cheatham County include an office in Ashland City, Tennessee, an office in Kingston Springs, Tennessee, and an office in Pleasant View, Tennessee. The buildings are held in fee.

Facilities of the Corporation's banking center in Houston County include an office in Erin, Tennessee. The building is held in fee.

Facilities of the Corporation's banking center in Montgomery County include three offices in Clarksville, Tennessee. The buildings are held in fee.

Facilities of the Corporation's loan production offices, include an office in Carmel, Indiana, an office in Evansville, Indiana, an office in Murfreesboro, Tennessee, and an office in Brentwood, Tennessee. The loan production offices are leased by the Bank. The expiration dates on the leases are April 30, 2028, August 15, 2025, February 28, 2026, and September 30, 2026.

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 April 1, 2022.

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

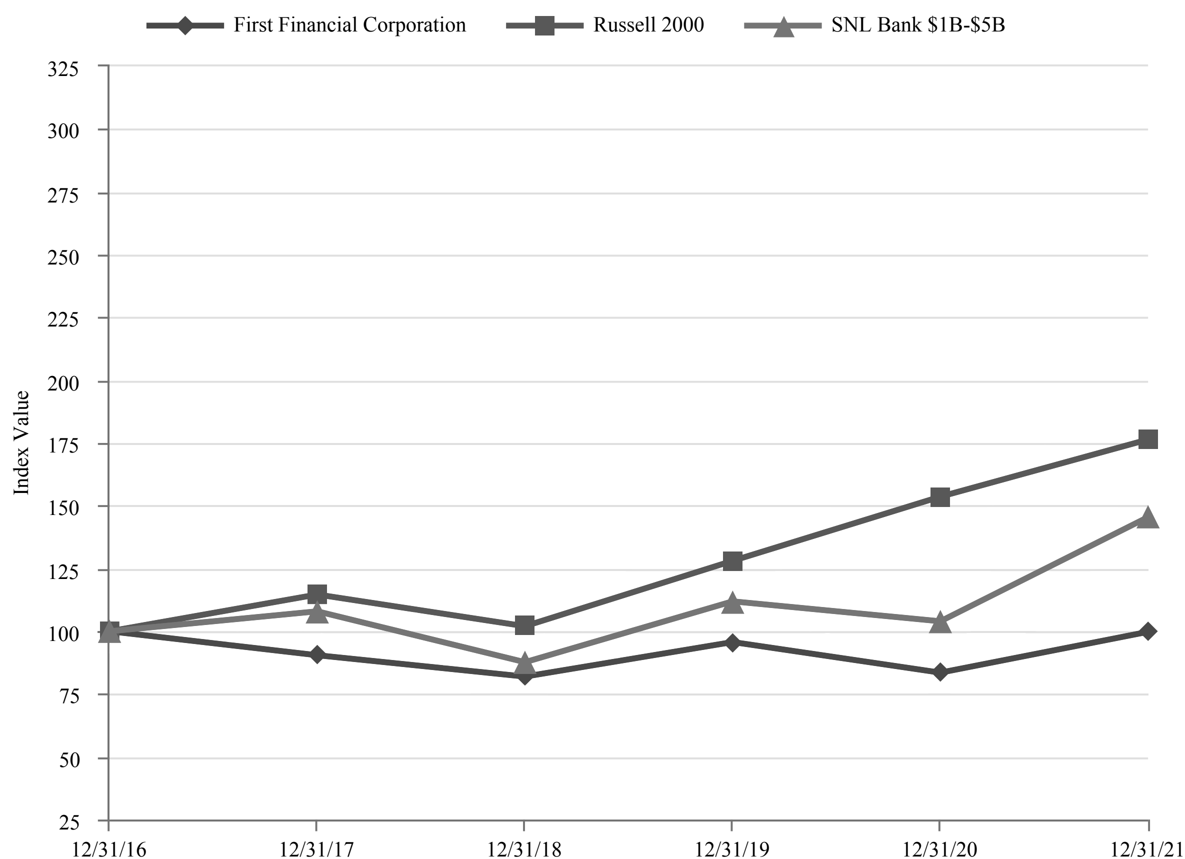
MARKET AND DIVIDEND INFORMATION

(a) As of March 1, 2022 shareholders owned 12,470,926 shares of the Corporation's common stock. The stock is traded on the NASDAQ Global Select Market under the symbol "THFF". On March 1, 2022, approximately 7,998 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 2021 and 2020.

	2021			2020		
	Trade Price		Cash Dividends	Trade Price		Cash Dividends
Quarter ended	High	Low	Declared	High	Low	Declared
March 31	$ 46.31	$ 38.30		$ 45.72	$ 28.98	
June 30	$ 45.62	$ 40.73	$ 0.53	$ 39.37	$ 30.26	$ 0.52
September 30	$ 42.21	$ 38.33		$ 36.08	$ 30.26	
December 31	$ 45.29	$ 41.96	$ 0.63	$ 39.28	$ 31.88	$ 0.53

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 (0.22)%. During this same period, the return on The Russell 2000 Index was 76.39% and the SNL Index of Banks $1 - $5 Billion had a return of 45.47%.



		Period Ending				
Index	**12/31/2016**	**12/31/2017**	**12/31/2018**	**12/31/2019**	**12/31/2020**	**12/31/2021**
First Financial Corporation	100.00	90.46	81.95	95.71	83.52	99.78
Russell 2000	100.00	114.65	102.02	128.06	153.62	176.39
SNL Bank $1B-$5B	100.00	107.95	87.69	111.92	103.98	145.47

(b) Not applicable.

(c) The Corporation periodically acquires shares of its common stock directly from shareholders in individually negotiated transactions. On February 3, 2016 First Financial Corporation issued a press release announcing that its Board of Directors has authorized a stock repurchase program pursuant to which up to 5% of the Corporation's outstanding shares of common stock, or 637,500 shares may be repurchased. On October 29, 2020 First Financial Corporation issued a press release announcing that its Board of Directors has authorized a stock repurchase program pursuant to which up to 5% of the Corporation's outstanding shares of common stock, or 685,726 shares may be repurchased. On July 21, 2021 First Financial Corporation issued a press release announcing that its Board of Directors has authorized a stock repurchase program pursuant to which up to 5% of the Corporation's outstanding shares of common stock, or 652,411 shares may be repurchased.There were 981,132 and 242,031 purchases of common stock by the Corporation during the years ended December 31, 2021 and December 31, 2020. The Corporation contributed 31,355 shares of treasury stock to the ESOP in November of 2021. There were 271,166 shares of common stock purchased by the Corporation during the fourth quarter of the fiscal year covered by this report.

Following is certain information regarding shares of common stock purchased by the Corporation during the quarter ended December 31, 2021.

	Total Number Of Shares Purchased	Average Price Paid Per Share	Total Number Of Shares Purchased As Part Of Publicly Announced Plan Or Programs	Maximum Number of Shares That May Yet Be Purchased
October 1-31, 2021	—	$ —	—	—
November 1-30, 2021	124,130	$ 44.28	124,130	351,988
December 1-31, 2021	147,036	$ 44.59	147,036	202,720
Total	271,166	$ 44.45	271,166	202,720

ITEM 6. SELECTED FINANCIAL DATA

FIVE YEAR COMPARISON OF SELECTED FINANCIAL DATA

(Dollar amounts in thousands, except per share amounts)	2021	2020	2019	2018	2017
BALANCE SHEET DATA					
Total assets	$ 5,175,099	$ 4,560,520	$ 4,023,250	$ 3,008,718	$ 3,000,668
Securities	1,364,734	1,020,744	926,717	784,916	814,931
Loans	2,815,895	2,610,294	2,656,390	1,953,988	1,906,761
Deposits	4,409,569	3,755,945	3,275,357	2,436,727	2,458,653
Borrowings	109,311	121,920	111,092	69,656	57,686
Shareholders’ equity	582,576	596,992	557,608	442,701	413,569
INCOME STATEMENT DATA					
Interest income	152,198	160,485	149,121	126,224	114,195
Interest expense	8,797	14,139	17,469	9,645	6,338
Net interest income	143,401	146,346	131,652	116,579	107,857
Provision for credit losses	2,466	10,528	4,700	5,768	5,295
Other income	42,084	42,476	38,452	38,206	35,938
Other expenses	117,406	112,758	104,405	91,289	88,747
Net income	52,987	53,844	48,872	46,583	29,131
PER SHARE DATA:					
Net Income	4.02	3.93	3.80	3.80	2.38
Cash dividends	1.06	1.04	1.03	1.02	2.51
PERFORMANCE RATIOS:					
Return on average assets	1.10 %	1.25 %	1.42 %	1.57 %	0.98 %
Return on average shareholders’ equity	8.87	9.07	9.83	10.98	6.69
Average total capital to average assets	13.36	14.31	15.05	14.93	15.24
Average shareholders’ equity to average assets	12.41	13.77	14.46	14.25	14.58
Dividend payout	28.22	26.58	27.69	26.85	105.32

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 credit losses, securities valuation and goodwill. Actual results could differ from those estimates.

Allowance for credit losses. The allowance for credit losses represents management's estimate of expected losses inherent within the existing loan portfolio. The allowance for credit losses is increased by the provision for credit losses charged to

expense and reduced by loans charged off, net of recoveries. The allowance for credit 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 conditions, nonperforming loans, determination of acquired loans as purchase credit deteriorated, and reasonable and supportable forecasts. Loans are individually evaluated when they do not share risk characteristics with other loans in the respective pool. Loans evaluated individually are excluded from the collective evaluation. Management elected the collateral dependent practical expedient upon adoption of ASC 326. Expected credit losses on individually evaluated loans are based on the fair value of the collateral at the reporting date, adjusted for selling costs as appropriate.

We utilize a cohort methodology to determine the allowance for credit losses. This method identifies and captures the balance of a pool of loans with similar risk characteristics, as of a particular point in time to form a cohort, then tracks the respective losses generated by that cohort of loans over their remaining life. Our cohorts track loan balances and historical loss experience since 2008. Where past performance may not be representative of future losses, loss rates are adjusted for qualitative and economic forecast factors. Qualitative factors include items such as changes in lending policies or procedures, asset specific risks, the impact of COVID-19 on customer's operations, and economic uncertainty in forward-looking forecasts. Economic indicators utilized in forecasting include unemployment rate, gross domestic product, housing starts, and interest rates.

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 credit losses and the associated provision for credit losses. Should cash flow assumptions or market conditions change, a different amount may be recorded for the allowance for credit losses and the associated provision for credit 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 impairment related to credit losses. In evaluating for impairment, management considers the reason for the decline, the extent 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 security's amortized cost is written down to fair value through income. 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, a credit loss exists and an allowance for credit losses is recorded, limited to the amount that the fair value of the security is less than its amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income, net of applicable taxes. No allowance for credit losses for available-for-sale securities was needed at December 31, 2021.

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. With the decrease in market value as a result of the pandemic, the Corporation engaged a third party to conduct an in-depth analysis of the Corporation as of October 31, 2021. The final results determined that there was no impairment of goodwill. From the effective date of the analysis to December 31, 2021, the Corporation's market value increased. 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 credit 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 credit 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 2021

COMPARISON OF 2021 TO 2020

Net income for 2021 was $53.0 million, or $4.02 per share versus $53.8 million, or $3.93 per share for 2020. The decrease in 2021 net income is due to increased expenses from the Hancock acquisition, as well as declining interest rates. Return on average assets at December 31, 2021 decreased 12.00% to 1.10% compared to 1.25% at December 31, 2020.

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 decreased in 2021 to $143.4 million compared to $146.3 million in 2020. Total average interest earning assets increased to $4.61 billion in 2021 from $3.71 billion in 2020. The tax-equivalent yield on these assets decreased to 3.39% in 2021 from 4.43% in 2020. Total average interest-bearing liabilities increased to $3.43 billion in 2021 from $2.98 billion in 2020. The average cost of these interest-bearing liabilities decreased to 0.26% in 2021 from 0.47% in 2020.

The net interest margin decreased from 4.05% in 2020 to 3.20% in 2021. Earning asset yields decreased 104 basis points while the rate on interest-bearing liabilities decreased by 21 basis points.

CONSOLIDATED BALANCE SHEET - AVERAGE BALANCES AND INTEREST RATES

	December 31,								
	2021			2020			2019		
(Dollar amounts in thousands)	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
ASSETS									
Interest-earning assets:									
Loans (1) (2)	$2,602,344	128,978	4.96 %	$2,702,225	138,302	5.12 %	$2,270,313	125,906	5.55 %
Taxable investment securities	890,563	13,110	1.47 %	689,203	13,625	1.98 %	621,756	15,191	2.44 %
Tax-exempt investments (2)	387,935	13,544	3.49 %	322,121	12,731	3.95 %	302,757	11,999	3.96 %
Cash and due from banks	726,412	888	0.12 %	—	—	— %	—	—	— %
Federal funds sold	4,487	42	0.94 %	1,245	71	5.70 %	3,029	143	4.72 %
Total interest-earning assets	4,611,741	156,562	3.39 %	3,714,794	164,729	4.43 %	3,197,855	153,239	4.79 %
Non-interest earning assets:									
Cash and due from banks	—			370,883			86,592		
Premises and equipment, net	64,787			63,145			54,336		
Other assets	183,589			187,415			121,411		
Less allowance for loan losses	(45,767)			(23,318)			(20,401)		
TOTALS	$4,814,350			$4,312,919			$3,439,793		
LIABILITIES AND SHAREHOLDERS' EQUITY									
Interest-bearing liabilities:									
Transaction accounts	$2,799,227	2,751	0.10 %	$2,282,750	4,424	0.19 %	$2,057,713	9,847	0.48 %
Time deposits	520,885	5,407	1.04 %	589,975	8,377	1.42 %	447,172	5,864	1.31 %
Short-term borrowings	99,805	387	0.39 %	90,613	568	0.63 %	60,924	1,105	1.81 %
Other borrowings	7,562	252	3.33 %	18,335	770	4.20 %	24,780	653	2.64 %
Total interest-bearing liabilities:	3,427,479	8,797	0.26 %	2,981,673	14,139	0.47 %	2,590,589	17,469	0.67 %
Non interest-bearing liabilities:									
Demand deposits	717,764			660,011			292,445		
Other	71,738			77,444			59,430		
	4,216,981			3,719,128			2,942,464		
Shareholders' equity	597,369			593,791			497,329		
TOTALS	$4,814,350			$4,312,919			$3,439,793		
Net interest earnings		$ 147,765			$ 150,590			$ 135,770	
Net yield on interest- earning assets			3.20 %			4.05 %			4.25 %

(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 21%.

The following table sets forth the components of net interest income due to changes in volume and rate. The table information compares 2021 to 2020 and 2020 to 2019.

(Dollar amounts in thousands)	2021 Compared to 2020 Increase (Decrease) Due to				2020 Compared to 2019 Increase (Decrease) Due to			
	Volume	**Rate**	Volume/ Rate	**Total**	**Volume**	**Rate**	Volume/ Rate	**Total**
Interest earned on interest-earning assets:								
Loans (1) (2)	$ (5,112)	$ (4,374)	$ 162	$ (9,324)	$ 23,953	$ (9,710)	$ (1,847)	$ 12,396
Taxable investment securities	3,981	(3,479)	(1,017)	(515)	1,648	(2,899)	(315)	(1,566)
Tax-exempt investment securities (2)	2,600	(1,484)	(303)	813	767	(33)	(2)	732
Cash and due from banks	—	—	888	888	—	—	—	—
Federal funds sold	185	(59)	(155)	(29)	(84)	30	(18)	(72)
Total interest income	$ 1,654	$ (9,396)	$ (425)	$ (8,167)	$ 26,284	$ (12,612)	$ (2,182)	$ 11,490
Interest paid on interest-bearing liabilities:								
Transaction accounts	1,001	(2,181)	(493)	(1,673)	1,077	(5,859)	(641)	(5,423)
Time deposits	(981)	(2,253)	264	(2,970)	1,873	485	155	2,513
Short-term borrowings	58	(217)	(22)	(181)	538	(723)	(352)	(537)
Other borrowings	(452)	(159)	93	(518)	(170)	388	(101)	117
Total interest expense	(374)	(4,810)	(158)	(5,342)	3,318	(5,709)	(939)	(3,330)
Net interest income	$ 2,028	$ (4,586)	$ (267)	$ (2,825)	$ 22,966	$ (6,903)	$ (1,243)	$ 14,820

(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 21%.

PROVISION FOR CREDIT LOSSES

The provision for credit losses charged to expense is based upon current expected loss and the results of a detailed analysis estimating an appropriate and adequate allowance for credit losses. The analysis is governed by *Accounting Standards Codification* (ASC 326), implemented in 2020, which uses an economic forecast that includes the impact of the COVID-19 pandemic. For the year ended December 31, 2021, the provision for credit losses was $2.5 million, a decrease of $8.1 million, or 77%, compared to 2020. In 2020, along with the adoption of CECL, $4 million was added to allowance to accommodate anticipated losses from the pandemic. In 2021 when those losses became unrealized, the additional pandemic allowances were removed, as well as CECL performance requiring lower allowance for credit losses. Continued loan growth in future periods, an increase in charge-offs, or a decline in our current level of recoveries could result in an increase in provision expense. Additionally, with the adoption of ASC 326 in 2020, provision expense may become more volatile due to changes in CECL model assumptions of credit quality, economic conditions, and loan composition, which drive allowance for credit losses.

Net charge-offs for 2021 were $2.6 million as compared to $3.5 million for 2020 and $5.2 million for 2019. Non-accrual loans, excluding TDR's, decreased to $9.6 million at December 31, 2021 from $15.4 million at December 31, 2020. Loans past due 90 days and still on accrual decreased to $515 thousand compared to $2.3 million at December 31, 2020.

NON-INTEREST INCOME

Non-interest income of $42.1 million decreased $392 thousand from the $42.5 million earned in 2020. Non-interest income decreased due to a decrease in gains on sales of mortgage loans.

NON-INTEREST EXPENSES

Non-interest expenses increased to $117.4 million in 2021 from $112.8 million in 2020. The increase was mainly due to increased expenses from the acquisition of Hancock Bancorp, Inc.

INCOME TAXES

The Corporation's federal income tax provision was $12.6 million in 2021 compared to $11.7 million in 2020. The overall effective tax rate in 2021 of 19.2% increased as compared to a 2020 effective rate of 17.8%. The increase is primarily due to increase of general business tax credits benefits earned in 2020.

COMPARISON OF 2020 TO 2019

Net income for 2020 was $53.8 million or $3.93 per share compared to $48.9 million in 2019 or $3.80 per share. The increase in 2020 net income is primarily due to an increase in net interest income related to full year impact of acquisition. 2019 net income includes the results from the acquisition of HopFed, Inc.

Net interest income increased $14.6 million in 2020 compared to 2019. The provision for credit losses increased $5.8 million from $4.7 million in 2019 to $10.5 million in 2020. Non-interest expenses increased $8.4 million and non-interest income increased $4.0 million. The increase in non-interest expenses was largely due to the acquisition of HopFed, Inc.

The provision for income taxes decreased $492 thousand from 2019 to 2020 and the effective tax rate decreased to 17.8% in 2020 from 20.0% in 2019. The decrease is primarily due to increase of general business tax credits benefits earned in 2020.

COMPARISON AND DISCUSSION OF 2021 BALANCE SHEET TO 2020

The Corporation's total assets increased 13.5% or $614.6 million at December 31, 2021, from a year earlier. Available-for-sale securities increased $344.0 million at December 31, 2021, from the previous year. Loans, net increased by $204.3 million to $2.77 billion. Deposits increased $653.6 million while borrowings decreased by $12.6 million. Total shareholders' equity decreased $14.4 million to $582.6 million at December 31, 2021. In 2021 dividends paid by the Corporation totaled $1.06 per share. There were also 31,355 shares from the treasury with a value of $1.40 million that were contributed to the ESOP plan in 2021 compared to 39,029 shares with a value of $1.47 million in 2020.

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 2021 the portfolio's balance increased by 33.7%. The average life of the portfolio increased from 3.8 years in 2020 to 5.0 years in 2021. The portfolio structure will continue to provide cash flows to be reinvested during 2022.

	1 year and less		1 to 5 years		5 to 10 years		Over 10 Years		2021
(Dollar amounts in thousands)	Balance	Rate	Balance	Rate	Balance	Rate	Balance	Rate	Total
U.S. government sponsored entity mortgage-backed securities and agencies and U.S. Treasury (1)	$ 12,784	2.37 %	$ 28,466	1.84 %	$ 42,881	3.96 %	$ 678,295	2.15 %	$ 762,426
Collateralized mortgage obligations (1)	3,449	2.17 %	688	3.79 %	7,516	2.15 %	163,352	2.32 %	175,005
States and political subdivisions	5,358	3.27 %	34,438	2.97 %	75,506	2.68 %	303,422	2.57 %	418,724
Other securities	3,477	1.40 %	1,245	0.01 %	498	0.01 %	—	— %	5,220
Collateralized debt obligations	—	— %	—	— %	—	— %	3,359	— %	3,359
TOTAL	$ 25,068	2.40 %	$ 64,837	2.42 %	$ 126,401	3.07 %	$1,148,428	2.28 %	$1,364,734

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

	1 year and less		1 to 5 years		5 to 10 years		Over 10 Years		2020
(Dollar amounts in thousands)	Balance	Rate	Balance	Rate	Balance	Rate	Balance	Rate	Total
U.S. government sponsored entity mortgage-backed securities and agencies (1)	$ 8,892	2.21 %	$ 36,343	1.87 %	$ 40,007	5.02 %	$ 388,936	2.44 %	$ 474,178
Collateralized mortgage obligations (1)	—	— %	3,728	5.19 %	5,400	1.67 %	205,032	2.42 %	214,160
States and political subdivisions	4,414	3.17 %	35,651	3.15 %	57,755	3.06 %	231,450	2.87 %	329,270
Collateralized debt obligations	—	— %	—	— %	—	— %	3,136	— %	3,136
TOTAL	13,306	2.53 %	75,722	2.64 %	103,162	3.74 %	828,554	2.55 %	1,020,744

(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 2021 are set forth in the following analyses.

(Dollar amounts in thousands)	2021	2020	2019	2018	2017
Loan Category					
Commercial	$ 1,674,066	$ 1,521,711	$ 1,584,447	$ 1,166,352	$ 1,139,490
Residential	664,509	604,652	682,077	443,670	436,143
Consumer	474,026	479,750	386,006	341,041	327,976
TOTAL	$ 2,812,601	$ 2,606,113	$ 2,652,530	$ 1,951,063	$ 1,903,609

(Dollar amounts in thousands)	Within One Year	After One But Within Five Years	After Five Years	Total
MATURITY DISTRIBUTION				
Commercial, financial and agricultural	$ 535,632	$ 748,859	$ 389,575	$ 1,674,066
TOTAL				
Residential				664,509
Consumer				474,026
TOTAL				$ 2,812,601
Loans maturing after one year with:				
Fixed interest rates		$ 437,115	$ 346,566	
Variable interest rates		311,744	43,009	
TOTAL		$ 748,859	$ 389,575	

ALLOWANCE FOR CREDIT LOSSES

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

(Dollar amounts in thousands)	2021	2020	2019	2018	2017
Amount of loans outstanding at December 31,	$2,812,601	$2,606,113	$2,652,530	$1,951,063	$1,903,609
Average amount of loans by year	$2,602,344	$2,702,225	$2,270,313	$1,855,092	$1,792,609
Allowance for credit losses at beginning of year	$ 44,076	$ 19,943	$ 20,436	$ 19,909	$ 18,773
Loans charged off:					
Commercial	2,158	1,097	2,616	1,122	1,572
Residential	812	944	1,050	841	761
Consumer	5,246	6,355	7,007	6,868	6,429
Total loans charged off	8,216	8,396	10,673	8,831	8,762
Recoveries of loans previously charged off:					
Commercial	1,069	856	1,092	606	1,377
Residential	616	657	1,360	639	842
Consumer	3,884	3,404	3,028	2,345	2,384
Total recoveries	5,569	4,917	5,480	3,590	4,603
Net loans charged off	2,647	3,479	5,193	5,241	4,159
Provision charged to expense *	2,466	10,528	4,700	5,768	5,295
CECL adoption	—	17,084	—	—	—
PCD ACL on acquired loans	4,410	—	—	—	—
Balance at end of year	$ 48,305	$ 44,076	$ 19,943	$ 20,436	$ 19,909
Ratio of net charge-offs during period to average loans outstanding	0.10 %	0.13 %	0.23 %	0.22 %	0.25 %

The allowance is maintained at an amount management believes sufficient to absorb expected 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 credit losses. The loan quality monitoring process includes assigning loan grades and the use of a watch list to identify loans of concern.

The analysis of the allowance for credit losses includes the allocation of specific amounts of the allowance to individually evaluated 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, including current conditions and reasonable and supportable forecasts about the future. These components are added together and compared to the balance of our allowance at the evaluation date. The allowance for credit losses as a percentage of total loans increased to 1.72% at year end 2021 compared to 1.69% at year end 2020. The increase is primarily due to the adoption of CECL. A portion of the increase was due to the requirement to include an allowance for credit losses on purchased loans that previously only required an allocation if there was a deterioration since acquisition date. 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, including reasonable and supportable forecasts, that influence management's expectations of loss in the portfolio. Non-performing loans of $14.9 million at December 31, 2021 decreased from $21.9 million at December 31, 2020. Management believes the allowance for credit losses balance at year end 2021 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.

	Years Ended December 31,				
(Dollar amounts in thousands)	2021	2020	2019	2018	2017
Commercial	$ 18,883	$ 13,925	$ 8,945	$ 9,848	$ 10,281
Residential	18,316	19,142	1,302	1,313	1,455
Consumer	10,721	11,009	8,304	7,481	6,709
Unallocated	385	—	1,392	1,794	1,464
TOTAL ALLOWANCE FOR CREDIT LOSSES	$ 48,305	$ 44,076	$ 19,943	$ 20,436	$ 19,909

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 increased in 2021 and in 2020 due to the increased number and balance of loans added combined with the continued receipt of payments in accordance with the restructuring terms. Additional information regarding restructured loans is available in the footnotes to the financial statements.

(Dollar amounts in thousands)	2021	2020	2019	2018	2017
Non-accrual loans	$ 9,590	$ 15,367	$ 9,535	$ 10,974	$ 13,245
Accruing restructured loans	3,897	3,052	3,318	3,702	3,280
Non-accrual restructured loans	902	1,154	876	1,104	3,754
Accruing loans past due over 90 days	515	2,324	1,610	798	1,403
	$ 14,904	$ 21,897	$ 15,339	$ 16,578	$ 21,682

The ratio of the allowance for loan losses as a percentage of nonperforming loans was 324.11% at December 31, 2021, compared to 226.83% in 2020. 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, 2021 and 2020:

(Dollar amounts in thousands)	2021		2020	
Non-accrual loans:				
Commercial loans	$ 4,991	52 %	$ 9,704	63 %
Residential loans	3,049	32 %	4,355	28 %
Consumer loans	1,550	16 %	1,308	9 %
	$ 9,590	100 %	$ 15,367	100 %
Past due 90 days or more:				
Commercial loans	$ 14	3 %	$ —	— %
Residential loans	410	79 %	1,962	84 %
Consumer loans	91	18 %	362	16 %
	$ 515	100 %	$ 2,324	100 %

Management considers the present allowance to be appropriate and adequate to cover expected 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 credit losses.

DEPOSITS

The information below presents the average amount of deposits and rates paid on those deposits for 2021, 2020 and 2019.

	2021		2020		2019	
(Dollar amounts in thousands)	Amount	Rate	Amount	Rate	Amount	Rate
Non-interest-bearing demand deposits	$ 717,764		$ 660,011		$ 292,445	
Interest-bearing demand deposits	1,309,682	0.15 %	1,061,745	0.27 %	979,195	0.60 %
Savings deposits	1,489,545	0.05 %	1,221,005	0.12 %	1,078,518	0.37 %
Time deposits: $100,000 or more	214,976	1.36 %	260,314	1.88 %	139,416	1.82 %
Other time deposits	305,909	0.81 %	329,661	1.05 %	307,756	1.08 %
TOTAL	$ 4,037,876		$ 3,532,736		$ 2,797,330	

The maturities of certificates of deposit of more than $100 thousand outstanding at December 31, 2021, are summarized as follows:

(Dollar amounts in thousands)	
3 months or less	$ 40,254
Over 3 through 6 months	28,258
Over 6 through 12 months	67,474
Over 12 months	109,835
TOTAL	$ 245,821

OTHER BORROWINGS

Advances from the Federal Home Loan Bank decreased to $15.9 million in 2021 compared to $5.9 million in 2020. 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, 2021.

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 2021 and 2020 was 28.2% and 26.6%, 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, 2021. 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 5.09% over the next 12 months and increase 8.96% over the following 12 months. Given a 100 basis point decrease in rates, net interest income would decrease 6.49% over the next 12 months and decrease 10.91% over the following 12 months. These estimates assume all rate changes occur overnight and management takes no action as a result of this change.

Basis Point	**Percentage Change in Net Interest Income**		
Interest Rate Change	**12 months**	**24 months**	**36 months**
Down 100	-6.49%	-10.91%	-13.51%
Up 100	5.09%	8.96%	11.92%
Up 200	6.61%	13.62%	19.54%

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 $25.1 million of investments that mature throughout the coming 12 months. The Corporation also anticipates $164.5 million of principal payments from mortgage-backed securities. Given the current rate environment, the Corporation anticipates $30.0 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, 2021, 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					
(Dollar amounts in thousands)	**Note Reference**	**One year or less**	**One year to Three Years**	**Three to Five Years**	**Over Five Years**	**Total**
Deposits without a stated maturity		$ 3,859,753	$ —	$ —	$ —	$ 3,859,753
Consumer certificates of deposit		326,173	191,871	31,681	91	549,816
Short-term borrowings	11	93,374	—	—	—	93,374
Other borrowings	12	—	15,937	—	—	15,937

The Corporation has obligations under its pension, supplemental executive retirement plan and post-retirement medical benefits plan as described in Note 16 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, 2021. Further discussion of these commitments is included in Note 15 to the consolidated financial statements.

(Dollar amounts in thousands)	Total Amount Committed	One year or less	Over One Year
Commitments to extend credit:			
Unused loan commitments	$ 823,422	$ 698,588	$ 124,834
Commercial letters of credit	7,042	7,042	—

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, 2021, 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, 2021, its system of internal control over financial reporting is effective and meets the criteria of the "Internal Control—Integrated Framework."

Crowe LLP (PCAOB ID: 173) , independent registered public accounting firm, has audited the Corporation's internal control over financial reporting as of December 31, 2021 and has issued a report dated March 9, 2022.

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 "Company") as of December 31, 2021 and 2020, 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, 2021, and the related notes (collectively referred to as the "financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2021, 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 Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2021 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control – Integrated Framework: (2013) issued by COSO.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the Company has changed its method of accounting for credit losses effective January 1, 2020 due to the adoption of Financial Accounting Standards Board (FASB) Accounting Standards Codification No. 326, Financial Instruments – Credit Losses (ASC 326). The Company adopted the new credit loss standard using the modified retrospective method such that prior period amounts are not adjusted and continue to be reported in accordance with previously applicable generally accepted accounting principles.

Basis for Opinions

The Company'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 Company's financial statements and an opinion on the Company'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 Company 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 for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) 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 company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company'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.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Allowance for Credit Losses on Loans

As discussed in Notes 1, the allowance for credit losses (the "ACL") is an accounting estimate of expected credit losses over the estimated life of financial assets carried at amortized cost and off-balance-sheet credit exposures in accordance with Accounting Standards Update (the "ASU") 2016-13, Financial Instruments —Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The ASU requires financial assets, including the Company's loan portfolio, measured at amortized cost, to be presented at the net amount expected to be collected. Estimates of expected credit losses for loans are based on relevant information about past events, current conditions, and reasonable and supportable forecasts related to macroeconomic conditions, resulting in recognition of lifetime expected credit losses upon loan origination. Provision for credit loss expense for the year ending December 31, 2021 was $2.4 million and the Allowance for Credit Losses at December 31, 2021 was $48.3 million.

The Company utilizes the cohort or open pool methodology for determining the allowance for credit losses. The open pool methodology identifies and captures the balance of a pool of loans with similar risk characteristics, as of a particular point in time to form a cohort. The methodology then tracks the respective losses generated by that cohort of loans over their remaining lives. When past performance may not be representative of future losses, the historical loss experience is supplemented with other current factors based on the risks present for each portfolio segment. These current factors include changes in lending policies or procedures, asset specific risks, the impact of COVID-19 on customers' operations, and economic uncertainty in forward-looking forecasts. Economic indicators that are used in determining the economic forecast factors include unemployment rate, gross domestic product, housing starts and interest rates.

The allowance for credit losses on loans was identified by us as a critical audit matter because of the extent of auditor judgment applied and significant audit effort to evaluate the significant subjective and complex judgments made by management throughout the determination process. The principal considerations resulting in our determination included the following:

- Significant auditor judgment and effort were used in evaluating the qualitative factors used in the calculation.
- Significant auditor judgment in evaluating the selection and application of the reasonable and supportable forecast of economic variables.
- Significant audit effort to test the relevance and reliability of the critical data used in the methodology.

The primary procedures performed to address this critical audit matter included:

- Testing the effectiveness of management's internal controls over the Company's significant model assumptions and judgments, loan segmentation, reasonable and supportable forecasts, qualitative factor adjustments, relevance and reliability of data used in the model, charge-off approval, information systems and model validation

- Testing the effectiveness of controls over the Company's preparation and review of the allowance for credit loss calculation, including data used as the basis for adjustments related to the qualitative factors, the development and reasonableness of qualitative factors and mathematical accuracy and appropriateness of the overall calculation
- Evaluating management's judgments in the selection of the loss estimation model as well as the loan segmentation and historical loss periods used in the model
- Evaluating management's judgments in the selection and application of reasonable and supportable forecast of economic variables
- Testing management's process for developing the qualitative factors and assessing reasonableness, relevance and reliability of data used to develop factors, including evaluating their judgments and assumptions for reasonableness

/s/ Crowe LLP
Crowe LLP

We have served as the Corporation's auditor since 1999.

Indianapolis, Indiana
March 9, 2022

CONSOLIDATED BALANCE SHEETS

(Dollar amounts in thousands, except per share data)	December 31, 2021	December 31, 2020
ASSETS		
Cash and due from banks	$ 682,807	$ 657,470
Federal funds sold	308	301
Securities available-for-sale	1,364,734	1,020,744
Loans, net of allowance for credit losses of $48,305 in 2021 and $44,076 in 2020	2,767,590	2,566,218
Restricted stock	16,200	14,812
Accrued interest receivable	16,946	16,957
Premises and equipment, net	69,522	62,063
Bank-owned life insurance	116,997	95,849
Goodwill	86,135	78,592
Other intangible assets	8,024	8,972
Other real estate owned	108	1,012
Other assets	45,728	37,530
TOTAL ASSETS	$ 5,175,099	$ 4,560,520
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest-bearing	$ 914,933	$ 732,694
Interest-bearing:		
Certificates of deposit that meet or exceed the FDIC insurance limit	74,015	107,764
Other interest-bearing deposits	3,420,621	2,915,487
	4,409,569	3,755,945
Short-term borrowings	93,374	116,061
Other borrowings	15,937	5,859
Other liabilities	73,643	85,663
TOTAL LIABILITIES	4,592,523	3,963,528
Shareholders' equity		
Common stock, $.125 stated value per share;		
Authorized shares-40,000,000		
Issued shares-16,096,313 in 2021 and 16,075,154 in 2020		
Outstanding shares-12,629,893 in 2021 and 13,558,511 in 2020	2,009	2,007
Additional paid-in capital	141,979	140,820
Retained earnings	559,139	521,103
Accumulated other comprehensive income (loss)	(2,426)	9,764
Less: Treasury shares at cost-3,466,420 in 2021 and 2,516,643 in 2020	(118,125)	(76,702)
TOTAL SHAREHOLDERS' EQUITY	582,576	596,992
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 5,175,099	$ 4,560,520

See accompanying notes.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(Dollar amounts in thousands, except per share data)	Years Ended December 31, 2021	2020	2019
INTEREST AND DIVIDEND INCOME:			
Loans, including related fees	$ 128,000	$ 137,241	$ 124,788
Securities:			
Taxable	13,998	13,625	15,191
Tax-exempt	8,762	7,952	7,674
Other	1,438	1,667	1,468
TOTAL INTEREST AND DIVIDEND INCOME	152,198	160,485	149,121
INTEREST EXPENSE:			
Deposits	8,158	12,801	15,711
Short-term borrowings	387	568	1,105
Other borrowings	252	770	653
TOTAL INTEREST EXPENSE	8,797	14,139	17,469
NET INTEREST INCOME	143,401	146,346	131,652
Provision for credit loss expense	2,466	10,528	4,700
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	140,935	135,818	126,952
NON-INTEREST INCOME:			
Trust and financial services	5,255	5,423	5,036
Service charges and fees on deposit accounts	10,089	10,256	11,795
Other service charges and fees	18,212	15,644	14,012
Securities gain (loss), net	114	233	44
Insurance commissions	162	158	133
Gain on sale of mortgage loans	5,003	6,626	2,573
Other	3,249	4,136	4,859
TOTAL NON-INTEREST INCOME	42,084	42,476	38,452
NON-INTEREST EXPENSES:			
Salaries and employee benefits	64,474	61,931	54,827
Occupancy expense	8,774	8,202	7,600
Equipment expense	10,174	10,568	8,244
Federal Deposit Insurance	1,294	316	693
Other	32,690	31,741	33,041
TOTAL NON-INTEREST EXPENSE	117,406	112,758	104,405
INCOME BEFORE INCOME TAXES	65,613	65,536	60,999
Provision for income taxes	12,626	11,692	12,127
NET INCOME	52,987	53,844	48,872
OTHER COMPREHENSIVE INCOME			
Change in unrealized gains/(losses) on securities, net of reclassifications and taxes	(18,488)	19,269	20,998
Change in funded status of post-retirement benefits, net of taxes	6,298	(2,004)	(5,045)
COMPREHENSIVE INCOME	$ 40,797	$ 71,109	$ 64,825
EARNINGS PER SHARE:			
BASIC AND DILUTED	$ 4.02	$ 3.93	$ 3.80
Weighted average number of shares outstanding (in thousands)	13,190	13,716	12,865

See accompanying notes.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Dollar amounts in thousands, except per share data)	Common Stock	Additional Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Treasury Stock	Total
Balance, January 1, 2019	$ 1,824	$ 76,774	$ 456,716	$ (23,454)	$ (69,159)	$ 442,701
Net income	—	—	48,872	—	—	48,872
Other comprehensive income (loss)	—	—	—	15,953	—	15,953
Omnibus Equity Incentive Plan, net	3	798	—	—	—	801
Treasury stock purchases (7,866 shares)	—	—	—	—	(315)	(315)
Contribution of 28,470 shares to ESOP	—	422	—	—	829	1,251
Acquisition of HopFed, Inc. (1,423,143 shares)	178	61,700	—	—	—	61,878
Cash Dividends, $1.04 per share	—	—	(13,533)	—	—	(13,533)
Balance, December 31, 2019	2,005	139,694	492,055	(7,501)	(68,645)	557,608
Cumulative change in accounting principle (Note 1)	—	—	(10,483)	—	—	(10,483)
Balance, January 1, 2020	2,005	139,694	481,572	(7,501)	(68,645)	547,125
Net income	—	—	53,844	—	—	53,844
Other comprehensive income (loss)	—	—	—	17,265	—	17,265
Omnibus Equity Incentive Plan, net	2	818	—	—	—	820
Treasury stock purchases (242,031 shares)	—	—	—	—	(9,220)	(9,220)
Contribution of 39,029 shares to ESOP	—	308	—	—	1,163	1,471
Cash Dividends, $1.05 per share	—	—	(14,313)	—	—	(14,313)
Balance, December 31, 2020	2,007	140,820	521,103	9,764	(76,702)	596,992
Net income	—	—	52,987	—	—	52,987
Other comprehensive income (loss)	—	—	—	(12,190)	—	(12,190)
Omnibus Equity Incentive Plan, net	2	805	—	—	—	807
Treasury stock purchases (981,132 shares)	—	—	—	—	(42,471)	(42,471)
Contribution of 31,355 shares to ESOP	—	354	—	—	1,048	1,402
Cash Dividends, $1.16 per share	—	—	(14,951)	—	—	(14,951)
Balance, December 31, 2021	$ 2,009	$ 141,979	$ 559,139	$ (2,426)	$ (118,125)	$ 582,576

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
(Dollar amounts in thousands, except per share data)	2021	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Income	$ 52,987	$ 53,844	$ 48,872
Adjustments to reconcile net income to net cash provided by operating activities:			
Net (accretion) amortization on securities	8,433	7,184	4,848
Provision for credit losses	2,466	10,528	4,700
Securities (gains) losses	(114)	(233)	(44)
Depreciation and amortization	6,154	6,092	4,826
Provision for deferred income taxes	(1,568)	(3,768)	(2,841)
Net change in accrued interest receivable	982	1,566	(903)
Contribution of shares to ESOP	1,402	1,471	1,251
Stock compensation expense	807	820	801
Gain on sale of mortgage loans	(5,003)	(6,626)	(2,573)
Loss (gain) on sales of other real estate	18	(761)	44
Origination of loans held for sale	(115,144)	(165,524)	(79,454)
Proceeds from loans held for sale	123,079	170,834	79,454
Other, net	(19,432)	1,998	(9,080)
NET CASH FROM OPERATING ACTIVITIES	55,067	77,425	49,901
CASH FLOWS FROM INVESTING ACTIVITIES:			
Sales of securities available-for-sale	9,369	28,161	3,259
Calls, maturities and principal reductions on securities available-for-sale	262,209	260,631	181,763
Purchases of securities available-for-sale	(589,802)	(365,998)	(129,466)
Loans made to customers, net of payments	31,628	53,144	(47,169)
Net change in federal funds sold	10,463	7,199	(7,500)
Purchase of bank owned life insurance	(10,000)	—	—
Redemption of restricted stock	—	600	3,588
Purchase of restricted stock	(25)	(18)	(4,164)
Cash received (disbursed) from acquisitions	(28,312)	—	(32,830)
Sale of other real estate	929	3,941	756
Additions to premises and equipment	(3,835)	(3,908)	(1,103)
NET CASH FROM INVESTING ACTIVITIES	(317,376)	(16,248)	(32,866)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net change in deposits	367,985	481,728	104,113
Net change in short-term borrowings	(22,687)	35,942	(55,147)
Dividends paid	(14,181)	(14,273)	(12,648)
Purchases of treasury stock	(42,471)	(9,220)	(315)
Proceeds from other borrowings	—	16,700	217,000
Repayments on other borrowings	(1,000)	(42,010)	(217,000)
NET CASH FROM FINANCING ACTIVITIES	287,646	468,867	36,003

Continued			
NET CHANGE IN CASH AND CASH EQUIVALENTS	25,337	530,044	53,038
CASH AND DUE FROM BANKS, BEGINNING OF YEAR	657,470	127,426	74,388
CASH AND DUE FROM BANKS, END OF YEAR	$ 682,807	$ 657,470	$ 127,426
SUPPLEMENTAL DISCLOSURES OF CASH FLOW AND NONCASH INFORMATION:			
Cash paid for the year for:			
Interest	$ 9,144	$ 14,845	$ 16,339
Income Taxes	$ 15,025	$ 7,549	$ 9,595

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES:

BUSINESS

Organization: The consolidated financial statements of First Financial Corporation and its subsidiaries (the Corporation) include the parent company and its wholly-owned subsidiaries, First Financial Bank, N.A. headquartered in Vigo County, Indiana, The Morris Plan Company of Terre Haute (Morris Plan), First Chanticleer Corporation, a property rental entity headquartered in Terre Haute, Indiana, JBMM, LLC, Heritage USA Title LLC, and Fort Webb LP, LLC, and FFB Risk Management Co., Inc., a captive insurance subsidiary headquartered in Las Vegas, Nevada. Inter-company transactions and balances have been eliminated. First Chanticleer Corporation was dissolved in December 2020.

First Financial Bank also has two investment subsidiaries, Portfolio Management Specialists A (Specialists A) and Portfolio Management Specialists B (Specialists B), which were established to hold and manage certain assets as part of a strategy to better manage various income streams and provide opportunities for capital creation as needed. Specialists A and Specialists B subsequently entered into a limited partnership agreement, Global Portfolio Limited Partners. Portfolio Management Specialists B also owns First Financial Real Estate, LLC. At December 31, 2021, $910.1 million of securities and loans were owned by these subsidiaries. Specialists A, Specialists B, Global Portfolio Limited Partners and First Financial Real Estate LLC are included in the consolidated financial statements.

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 and depositor services through its four subsidiaries. The Corporation's primary source of revenue is derived from loans to customers and investment activities.

The Corporation operates 78 branches in west-central Indiana, east-central Illinois, western Kentucky, and central Tennessee. First Financial Bank is the largest bank in Vigo County. It operates nine full-service banking branches within the county; one in Daviess County, Indiana.; three in Clay County, Indiana; one in Greene County, Indiana; one in Knox County, Indiana; two in Parke County, Indiana; one in Putnam County, Indiana; three in Sullivan County, Indiana; one in Vanderburgh County, Indiana,; three in Vermillion County, Indiana; four in Champaign County, Illinois; one in Clark County, Illinois; two in Coles County, Illinois; two in Crawford County, Illinois; one in Franklin County, Illinois; one in Jasper County, Illinois; two in Jefferson County, Illinois; one in Lawrence County, Illinois; two in Livingston County, Illinois; two in Marion County, Illinois; two in McLean County, Illinois; one in Richland County, Illinois; six in Vermilion County, Illinois; one in Wayne County, Illinois; one in Breckinridge County, Kentucky; two in Calloway County, Kentucky; three in Christian County, Kentucky; two in Fulton County, Kentucky; two in Hancock County, Kentucky; two in Hopkins County, Kentucky; two in Marshall County, Kentucky; one in Todd County, Kentucky; one in Trigg County, Kentucky; two in Warren County, Kentucky; three in Cheatham County, Tennessee; one in Houston County, Tennessee; and three in Montgomery County, Tennessee. There are four loan production offices, one in Hamilton County, Indiana; one in Vanderburgh County, Indiana; one in Rutherford County, Tennessee; and one in Williamson County, Tennessee. The bank also has a main office in downtown Terre Haute and an operations center/office building in southern Terre Haute.

Regulatory Agencies: First Financial Corporation is a multi-bank holding company and as such is regulated by various banking agencies. The holding company is regulated by the Seventh District of the Federal Reserve System. The national bank subsidiary is regulated by the Office of the Comptroller of the Currency. The state bank subsidiary is jointly regulated by the state banking organization and the Federal Deposit Insurance Corporation. FFB Risk Management Company is regulated by the State of Nevada Division of Insurance.

SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates: To prepare financial statements in conformity with U.S. generally accepted accounting principles, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and disclosures provided, and actual results could differ.

Cash Flows: Cash and cash equivalents include cash and demand deposits with other financial institutions. Cash flows are reported for customer loan and deposit transactions and short-term borrowings. Non-cash transactions include loans transferred to other real estate of $43 thousand, $567 thousand and $458 thousand for the years ended December 31, 2021, 2020 and 2019 respectively.

Securities: The Corporation classifies all securities as "available for sale." Securities are classified as available for sale when they might be sold before maturity. Securities available for sale are carried at fair value with unrealized holdings gains and losses, net of taxes, reported in other comprehensive income within shareholders' equity.

Interest income includes amortization of purchase premium or discount. Premiums and discounts are amortized on the level yield method without anticipating prepayments. Mortgage-backed securities are amortized over the expected life. Realized gains and losses on sales are based on the amortized cost of the security sold. Management evaluates securities for impairment related to credit losses at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation.

Loans: Loans that management has the intent and ability to hold for the foreseeable future until maturity or pay-off are reported at the principal balance outstanding, net of unearned interest, purchase premiums and discounts, deferred loan fees and costs, and allowance for credit losses. Loans held for sale are reported at the lower of cost or fair value, on an aggregate basis. Interest income is accrued on the unpaid principal balance and includes amortization of net deferred loan fees and costs over the loan term without anticipating prepayments. The recorded investment in loans includes accrued interest receivable and net deferred loan fees and costs. Interest income is not reported when full loan repayment is in doubt, typically when the loan is collateral dependent or payments are significantly past due. Past-due status is based on the contractual terms of the loan.

All interest accrued but not received for loans placed on non-accrual is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. In all cases, loans are placed on non-accrual or charged-off if collection of principal or interest is considered doubtful. The above policies are consistent for all segments of loans.

Purchased Credit Deteriorated (PCD) Loans: The Corporation purchases individual loans and groups of loans, some of which have experienced more than insignificant credit deterioration since origination. PCD loans are recorded at the amount paid. An allowance for credit losses is determined using the same methodology as other loans held for investment. The initial allowance for credit losses determined on a collective basis is allocated to individual loans. The sum of the loan's purchase price and initial allowance for credit losses becomes its amortized cost basis. The difference between the initial amortized cost basis and the par value of the loan is a noncredit discount or premium, which is accreted or amortized into interest income over the life of the loan. Subsequent changes to the allowance for credit losses are recorded through provision for credit losses.

Concentration of Credit Risk: Most of the Corporation's business activity is with customers located within west-central Indiana, east-central Illinois, western Kentucky, and middle and western Tennessee. Therefore, the Corporation's exposure to credit risk is significantly affected by changes in the economy of this area. A major economic downturn in this area would have a negative effect on the Corporation's loan portfolio.

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).

Allowance for Credit Losses: Credit quality of loans is continuously monitored by management and is reflected within the allowance for credit losses for loans. The allowance for credit losses is an estimate of expected losses inherent within the Company's loan portfolio. Credit quality is assessed and monitored by evaluating various attributes and the results of those evaluations are utilized in underwriting new loans and in our process for estimating expected credit losses. The allowance for credit losses is adjusted by a credit loss expense, which is reported in earnings, and reduced by the charge-off of loan amounts, net of recoveries. We have made a policy election to report accrued interest receivable as a separate line item on the balance sheet.

The Corporation adopted ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (ASU 2016-13), on December 31, 2020 with an effective date of January 1, 2020. As of the adoption date, the Corporation increased the allowance for credit losses for loan, by $20 million, since the ASU covers credit losses over the expected life of a loan as well as considering future changes in macroeconomic conditions. As of January 1, 2020, the Corporation recorded a cumulative effect adjustment of $10.5 million to decrease retained earnings.

The allowance for credit loss estimation process involves procedures to appropriately consider the unique characteristics of the loan portfolio segments. These segments are further disaggregated into loan classes based on the level at which credit risk is monitored. When computing the level of expected credit losses, credit loss assumptions are estimated using a model that categorizes loan pools based on loss history, delinquency status, and other credit trends and risk characteristics, including current conditions and reasonable and supportable forecasts about the future. Determining the appropriateness of the allowance is complex and requires judgment by management about the effect of matters that are inherently uncertain. In future periods evaluations of the overall loan portfolio, in light of the factors and forecasts then prevailing, may result in significant changes in the allowance and credit loss expense in those future periods.

We utilize a cohort methodology to determine the allowance for credit losses. This method identifies and captures the balance of a pool of loans with similar risk characteristics at a particular point in time to form a cohort. Then it tracks the respective losses generated by that cohort of loans over their remaining life. When past performance may not be representative of future losses, loss rates are adjusted for qualitative and economic forecast factors.

The allowance level is influenced by loan volumes, loan quality rating migration or delinquency status, changes in historical loss experience, and other conditions influencing loss expectations, such as reasonable and supportable forecasts of economic conditions. The methodology for estimating the amount of expected credit losses reported in the allowance for credit losses consists of specific and pooled components. The specific component relates to loans that are individually evaluated. A loan is individually evaluated when the loan no longer shares similar risk characteristics with other loans in its respective loan pool. If

a loan is individually evaluated, a portion of the allowance is allocated so that the loan is reported at the fair value of collateral, adjusted for selling costs, if repayment is expected solely from the collateral. The pooled component covers pools of loans that share similar risk characteristics, and is based on historical loss experienced since 2008. This historical loss experience is supplemented with other current factors based on the risks present for each portfolio segment. These current factors include items such as changes in lending policies or procedures, asset specific risks, the impact of COVID-19 on customers' operations, and economic uncertainty in forward-looking forecasts. Economic indicators utilized in forecasting include unemployment rate, gross domestic product, housing starts, and interest rates.

We maintain an allowance for credit losses on unfunded lending commitments to provide for the risk of loss inherent in these arrangements. Unfunded commitments include funds available for disbursement on commercial and agriculture operating lines, commercial real estate and residential construction loans, and home equity lines of credit. The allowance is computed using a methodology similar to that used to determine the allowance for credit losses for loans, modified to take into account the probability of a drawdown on the commitment. The allowance for credit losses on unfunded commitments was $3.0 million at December 31, 2021, and $3.4 million at December 31, 2020.

Foreclosed Assets: Assets acquired through or instead of loan foreclosures are initially recorded at fair value less estimated selling costs when acquired, establishing a new cost basis. Physical possession of residential real estate property collateralizing a consumer mortgage loan occurs when legal title is obtained upon completion of foreclosure or when the borrower conveys all interest in the property to satisfy the loan through completion of a deed in lieu of foreclosure or similar legal agreement. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. If fair value declines, a valuation allowance is recorded through expense. Costs after acquisition are expensed.

Premises and Equipment: Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed over the useful lives of the assets, which range from 3 to 5 years for furniture and equipment and 33 to 39 years for buildings and leasehold improvements.

Restricted Stock: Restricted stock includes Federal Home Loan Bank (FHLB) of Indianapolis and Federal Reserve stock. This restricted stock is carried at cost and periodically evaluated for impairment. Because this stock is viewed as a long-term investment, impairment is based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Servicing Rights: Servicing rights are recognized separately when they are acquired through sales of loans. When mortgage loans are sold, servicing rights are initially recorded at fair value with the income statement effect recorded in gains on sales of loans. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on third-party valuations that incorporate assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, ancillary income, prepayment speeds and default rates and losses. All classes of servicing assets are subsequently measured using the amortization method, which requires servicing rights to be amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans.

Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to carrying amount. Impairment is determined by stratifying rights into groupings based on predominant risk characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual grouping, to the extent that fair value is less than the carrying amount. If the Corporation later determines that all or a portion of the impairment no longer exists for a particular grouping, a reduction of the allowance may be recorded as an increase to income. Changes in valuation allowances are reported with Other Service Charges and Fees on the income statement. The fair values of servicing rights are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses.

Servicing fee income, which is included in Other Service Charges and Fees on the income statement, is for fees earned for servicing loans.

The fees are based on a contractual percentage of the outstanding principal or a fixed amount per loan and are recorded as income when earned. The amortization of mortgage servicing rights is netted against loan servicing fee income. Servicing fees totaled $1.3 million, $1.3 million and $1.3 million for the years ended December 31, 2021, 2020 and 2019. Late fees and ancillary fees related to loan servicing are not material.

Stock based compensation: Compensation cost is recognized for restricted stock awards and units issued to employees based on the fair value of these awards at the date of grant. Market price of the Corporation's common stock at the date of grant is used for restricted stock awards. Compensation expense is recognized over the requisite service period.

Transfers of Financial Assets: Transfers of financial assets are accounted for as sales, when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Corporation, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Corporation does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Bank-Owned Life Insurance: The Corporation has purchased life insurance policies on certain key executives. Bank-owned life insurance is recorded at its cash surrender value, or the amount that can be realized. Income on the investments in life insurance is included in other interest income.

Goodwill and Other Intangible Assets: Goodwill resulting from business combinations prior to January 1, 2009 represents the excess of the purchase price over the fair value of the net assets of businesses acquired. Goodwill resulting from business combinations after January 1, 2009 represents the future economic benefits arising from other assets acquired that are not individually identified and separately recognized. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually. The Corporation has selected December 31 as the date to perform the annual impairment test. The Corporation engaged a third party to conduct an in-depth analysis of the Corporation as of October 31, 2021. The final results determined that there was no impairment of goodwill. Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Goodwill is the only intangible asset with an indefinite life on our balance sheet.

Other intangible assets consist of core deposit assets arising from the whole bank and branch acquisitions. They are initially measured at fair value and then are amortized on an accelerated basis over their estimated useful lives, which are 10 and 12 years, respectively.

Long-Term Assets: Premises and equipment and other long-term assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

Benefit Plans: Pension expense is the net of service and interest cost, return on plan assets and amortization of gains and losses not immediately recognized. The amount contributed is determined by a formula as decided by the Board of Directors. Deferred compensation and supplemental retirement plan expense allocates the benefits over years of service.

Employee Stock Ownership Plan: Shares of treasury stock are issued to the ESOP and compensation expense is recognized based upon the total market price of shares when contributed.

Deferred Compensation Plan: Prior to 2011, a deferred compensation plan covered all directors. Under the plan, the Corporation pays each director, or their beneficiary, the amount of fees deferred plus interest over 10 years, beginning when the director achieves age 65. A liability is accrued for the obligation under these plans. The expense incurred for the deferred compensation for each of the last three years was $117 thousand, $111 thousand and $109 thousand, resulting in a deferred compensation liability of $1.3 million at December 31, 2021 and $1.5 million at December 31, 2020. There are no deferred compensation plans now in effect for directors.

Incentive Plans: A long-term incentive plan established in 2000 provides for the payment of incentive rewards as a 15-year annuity to all directors and certain key officers. That plan was in place through December 31, 2009, and compensation expense is recognized over the service period. Payments under the plan generally did not begin until the earlier of January 1, 2015, or the January 1 immediately following the year in which the participant reaches age 65. There was no compensation expense related to this plan for 2021, 2020 and 2019. There is a liability of $6.0 million and $6.8 million as of year-end 2021 and 2020. In 2011 the Corporation adopted the 2011 Short-term Incentive Plan and the 2011 Omnibus Equity Incentive Plan designed to reward key officers based on certain performance measures. The short-term portion of the plan is paid out within 75 days of year end and the long-term plan vests over a three year period and is paid out within 75 days of the end of each vesting period. The compensation expense related to the plans in 2021, 2020 and 2019 was $2.3 million, $2.2 million and $1.9 million, respectively, and resulted in a liability of $1.8 million at December 31, 2021 and $1.4 million at December 31, 2020.

The Omnibus Equity Incentive Plan is a long term incentive plan that was designed to align the interests of participants with the interest of shareholders. Under the plan, awards may be made based on certain performance measures. The grants are made in restricted stock units that are subject to a vesting schedule.

Income Taxes: Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

The Corporation recognizes interest and/or penalties related to income tax matters in income tax expense.

Loan Commitments and Related Financial Instruments: Financial instruments include credit instruments, such as commitments to make loans and standby letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Earnings Per Share: Earnings per common share is net income divided by the weighted average number of common shares outstanding during the period. The Corporation does not have any potentially dilutive securities as the restricted stock awards are included in outstanding shares.. Earnings and dividends per share are restated for stock splits and dividends through the date of issue of the financial statements.

Comprehensive Income: Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available for sale and changes in the funded status of the retirement plans, net of taxes, which are also recognized as separate components of equity.

Loss Contingencies: Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount of range of loss can be reasonably estimated. Management does not believe there are currently such matters that will have a material effect on the financial statements.

Dividend Restriction: Banking regulations require maintaining certain capital levels and may limit the dividends paid by the bank to the holding company or by the holding company to shareholders.

Fair Value of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or market conditions could significantly affect the estimates.

Operating Segment: While the Corporation's chief decision-makers monitor the revenue streams of the various products and services, the operating results of significant segments are similar and operations are managed and financial performance is evaluated on a corporate-wide basis. Accordingly, all of the Corporation's financial service operations are considered by management to be aggregated in one reportable operating segment, which is banking.

Accounting Pronouncements Adopted:

In December 2019, the FASB issued ASU 2019-12 "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes." These amendments remove specific exceptions to the general principles in Topic 740 in GAAP. It eliminates the need for an organization to analyze whether the following apply in a given period: exception to the incremental approach for intraperiod tax allocation; exceptions to accounting for basis differences where there are ownership changes in foreign investments; and exception in interim period income tax accounting for year-to-date losses that exceed anticipated losses. It also improves financial statement preparers' application of income tax-related guidance and simplifies GAAP for: franchise taxes that are partially based on income; transactions with a government that result in a step up in the tax basis of goodwill; separate financial statements of legal entities that are not subject to tax; and enacts changes in tax laws in interim periods. The guidance is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. Early adoption is permitted. The Corporation adopted ASU 2019-12 on January 1, 2021. ASU 2019-12 did not have a material impact on the Corporation's financial statements.

Recently Issued Not Yet Effective Accounting Pronouncements:

In March 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2020-04 "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting." These amendments provide temporary optional guidance to ease the potential burden in accounting for reference rate reform. The ASU provides optional expedients and exceptions for applying generally accepted accounting principles to contract modifications and hedging relationships, subject to meeting certain criteria, that reference LIBOR or another reference rate expected to be discontinued. It is intended to help stakeholders during the global market-wide reference rate transition period. In January 2021, the FASB issued ASU 2021-01 which clarifies that certain optional expedients and exceptions in Topic 848 for contract modifications and hedge accounting apply to derivatives that are affected by the discounting transition. The guidance is effective for all entities as of March 12, 2020 through December 31, 2022. The Corporation is evaluating the impacts of this ASU and has not yet determined whether LIBOR transition and this ASU will have material effects on the Corporation's business operations and consolidated financial statements.

2. **FAIR VALUES OF FINANCIAL INSTRUMENTS:**

Accounting guidance establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) of identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

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

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

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

	December 31, 2021 Fair Value Measurement Using			
(Dollar amounts in thousands)	Level 1	Level 2	Level 3	Carrying Value
U.S. Government entity mortgage-backed securities	$ —	$ 120,123	$ —	$ 120,123
Mortgage-backed securities, residential	—	626,428	—	626,428
Mortgage-backed securities, commercial	—	15,671	—	15,671
Collateralized mortgage obligations	—	175,005	—	175,005
State and municipal obligations	—	378,203	1,895	380,098
Municipal taxable	—	38,626	—	38,626
U.S. Treasury	—	204	—	204
Collateralized debt obligations	—	—	3,359	3,359
Other securities	—	3,477	1,743	5,220
TOTAL	$ —	$ 1,357,737	$ 6,997	$ 1,364,734
Derivative Assets		$ 1,030		
Derivative Liabilities		(1,030)		

	December 31, 2020 Fair Value Measurement Using			
(Dollar amounts in thousands)	Level 1	Level 2	Level 3	Carrying Value
U.S. Government entity mortgage-backed securities	$ —	$ 97,814	$ —	$ 97,814
Mortgage-backed securities, residential	—	355,121	—	355,121
Mortgage-backed securities, commercial	—	18,490	—	18,490
Collateralized mortgage obligations	—	214,160	—	214,160
State and municipal obligations	—	304,236	1,895	306,131
Municipal taxable	—	23,139	—	23,139
U.S. Treasury	—	2,753	—	2,753
Collateralized debt obligations	—	—	3,136	3,136
TOTAL	$ —	$ 1,015,713	$ 5,031	$ 1,020,744
Derivative Assets		$ 2,465		
Derivative Liabilities		(2,465)		

There were no transfers between Level 1 and Level 2 during 2021 and 2020.

The table below presents a reconciliation and income statement classification of gains and losses for all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the twelve months ended December 31, 2021 and 2020.

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) December 31, 2021			
	State and municipal obligations	**Collateralized debt obligations**	**Other securities**	**Total**
Beginning balance, January 1	$ 1,895	$ 3,136	$ —	$ 5,031
Total realized/unrealized gains or losses				
Included in earnings	—	—	—	—
Included in other comprehensive income	—	223	—	223
Purchases	—	—	1,743	1,743
Settlements	—	—	—	—
Ending balance, December 31	$ 1,895	$ 3,359	$ 1,743	$ 6,997

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) December 31, 2020		
	State and municipal obligations	Collateralized debt obligations	Total
Beginning balance, January 1	$ 2,565	$ 3,619	$ 6,184
Total realized/unrealized gains or losses			
Included in earnings	—	—	—
Included in other comprehensive income	—	(483)	(483)
Transfers	—	—	—
Settlements	(670)	—	(670)
Ending balance, December 31	$ 1,895	$ 3,136	$ 5,031

There were no unrealized gains and losses recorded in earnings for the years ended December 31, 2021, 2020 or 2019.

Other real estate owned is valued at Level 3. Other real estate owned at December 31, 2021 with a value of $108 thousand was reduced by zero for fair value adjustment. At December 31, 2021 other real estate owned was comprised of $68 thousand from commercial loans and $40 thousand from residential loans. Other real estate owned at December 31, 2020 with a value of $1.0 million was reduced zero for fair value adjustment. At December 31, 2020 other real estate owned was comprised of $846 thousand from commercial loans and $167 thousand from residential loans.

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

The following tables present quantitative information about recurring and non-recurring Level 3 fair value measurements at December 31, 2021 and 2020.

2021	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range
State and municipal obligations	$ 1,895	Discounted cash flow	Discount rate	3.41%-4.44%
Collateralized debt obligations	$ 3,359	Discounted cash flow	Discount rate	1.83 %
Other securities	$ 1,743	Discounted cash flow	Discount rate	0.65%-1.40%
Collateral dependent loans	$ 12,839	Discounted cash flows	Discount rate for age of appraisal and market conditions	0.00%-50.00%

2020	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range
State and municipal obligations	$ 1,895	Discounted cash flow	Discount rate	3.41%-4.44%
Collateralized debt obligations	$ 3,136	Discounted cash flow	Discount rate	1.93 %
Collateral dependent loans	$ 6,581	Sales comparison/income approach	Discount rate for age of appraisal and market conditions	0.00%-50.00%

The carrying amounts and estimated fair values of financial instruments are shown below. Carrying amount is the estimated fair value for cash and due from banks, federal funds sold, accrued interest receivable and payable, demand deposits, short-term and certain other borrowings, and variable-rate loans or deposits that reprice frequently and fully. Security fair values are determined as previously described. It is not practicable to determine the fair value of restricted stock due to restrictions placed on their transferability. For fixed-rate loans or deposits, variable rate loans or deposits with infrequent repricing or repricing limits, and for longer-term borrowings, fair value is based on discounted cash flows using current market rates applied to the estimated life and credit risk. Loan fair value estimates represent an exit price for 2021 and 2020. Fair values for impaired loans are estimated using discounted cash flow analysis or underlying collateral values. Fair value of debt is based on current rates for similar financing. The fair value of off-balance sheet items is not considered material.

The carrying amount and estimated fair value of assets and liabilities are presented in the tables below and were determined based on the above assumptions:

	December 31, 2021				
	Carrying	Fair Value			
(Dollar amounts in thousands)	**Value**	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash and due from banks	$ 682,807	$ 24,901	$ 657,906	$ —	$ 682,807
Securities available-for-sale	1,364,734	—	1,357,737	6,997	1,364,734
Restricted stock	16,200	n/a	n/a	n/a	n/a
Loans, net	2,767,590	—	—	2,682,257	2,682,257
Accrued interest receivable	16,946	—	4,709	12,237	16,946
Deposits	(4,409,569)	—	(4,418,117)	—	(4,418,117)
Short-term borrowings	(93,374)	—	(93,374)	—	(93,374)
Other borrowings	(15,937)	—	(16,483)	—	(16,483)
Accrued interest payable	(687)	—	(687)	—	(687)

	December 31, 2020				
	Carrying	Fair Value			
(Dollar amounts in thousands)	**Value**	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash and due from banks	$ 657,470	$ 25,645	$ 631,825	$ —	$ 657,470
Securities available-for-sale	1,020,744	—	1,015,713	5,031	1,020,744
Restricted stock	14,812	n/a	n/a	n/a	n/a
Loans, net	2,563,242	—	—	2,560,683	2,560,683
Accrued interest receivable	16,957	—	3,521	13,436	16,957
Deposits	(3,755,945)	—	(3,763,358)	—	(3,763,358)
Short-term borrowings	(116,061)	—	(116,061)	—	(116,061)
Other borrowings	(5,859)	—	(6,297)	—	(6,297)
Accrued interest payable	(1,033)	—	(1,033)	—	(1,033)

3. RESTRICTIONS ON CASH AND DUE FROM BANKS:

Certain affiliate banks are required to maintain average reserve balances with the Federal Reserve Bank. The amount of those reserve balances was zero at December 31, 2021 and 2020.

4. SECURITIES:

The fair value of securities available-for-sale and related gross unrealized gains and losses recognized in accumulated other comprehensive income were as follows:

	December 31, 2021			
	Amortized	Unrealized		
(Dollar amounts in thousands)	Cost	Gains	Losses	Fair Value
U.S. Government entity mortgage-backed securities	$ 118,176	$ 2,688	$ (741)	$ 120,123
Mortgage-backed securities, residential	628,920	4,387	(6,879)	626,428
Mortgage-backed securities, commercial	15,480	191	—	15,671
Collateralized mortgage obligations	175,501	1,272	(1,768)	175,005
State and municipal obligations	362,843	17,833	(578)	380,098
Municipal taxable	38,445	396	(215)	38,626
U.S. Treasury	205	—	(1)	204
Collateralized debt obligations	—	3,359	—	3,359
Other securities	5,220	—	—	5,220
TOTAL	$ 1,344,790	$ 30,126	$ (10,182)	$ 1,364,734

	December 31, 2020			
	Amortized	Unrealized		
(Dollar amounts in thousands)	Cost	Gains	Losses	Fair Value
U.S. Government entity mortgage-backed securities	$ 92,710	$ 5,105	$ (1)	$ 97,814
Mortgage-backed securities, residential	346,606	8,794	(279)	355,121
Mortgage-backed securities, commercial	17,931	559	—	18,490
Collateralized mortgage obligations	209,556	4,761	(157)	214,160
State and municipal obligations	285,837	20,294	—	306,131
Municipal taxable	22,440	702	(3)	23,139
U.S. Treasury	2,750	3	—	2,753
Collateralized debt obligations	—	3,136	—	3,136
TOTAL	$ 977,830	$ 43,354	$ (440)	$ 1,020,744

As of December 31, 2021, the Corporation does not have any securities from any issuer, other than the U.S. Government, with an aggregate book or fair value that exceeds ten percent of shareholders' equity.

Securities with a carrying value of approximately $814.7 million and $744.5 million at December 31, 2021 and 2020, respectively, were pledged as collateral for short-term borrowings and for other purposes.

Below is a summary of the gross gains and losses realized by the Corporation on investment sales and calls during the years ended December 31, 2021, 2020 and 2019, respectively.

(Dollar amounts in thousands)	2021	2020	2019
Proceeds	$ 12,886	$ 36,696	$ 11,210
Gross gains	274	290	55
Gross losses	(160)	(57)	(11)

Gains of $274 thousand and losses of $160 thousand in 2021 and gains of $290 thousand and losses of $57 thousand in 2020 and gains of $55 thousand and losses of $11 thousand in 2019 resulted from redemption premiums on called and sold securities.

Contractual maturities of debt securities at year-end 2021 were as follows. Securities not due at a single maturity or with no maturity date, primarily mortgage-backed and collateralized mortgage obligations, are shown separately.

	Available-for-Sale	
(Dollar amounts in thousands)	Amortized Cost	Fair Value
Due in one year or less	$ 16,769	$ 16,956
Due after one but within five years	47,479	48,391
Due after five but within ten years	83,680	87,192
Due after ten years	376,961	395,091
	524,889	547,630
Mortgage-backed securities and collateralized mortgage obligations	819,901	817,104
TOTAL	$ 1,344,790	$ 1,364,734

The following tables show the securities' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in continuous unrealized loss position, at December 31, 2021 and 2020.

	December 31, 2021					
	Less Than 12 Months		More Than 12 Months		Total	
(Dollar amounts in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government entity mortgage-backed securities	$ 48,939	$ (739)	146	(2)	$ 49,085	$ (741)
Mortgage-backed securities, residential	436,726	(5,281)	60,807	(1,598)	497,533	(6,879)
Collateralized mortgage obligations	73,530	(1,327)	12,505	(441)	86,035	(1,768)
State and municipal obligations	54,040	(578)	—	—	54,040	(578)
Municipal taxable	15,048	(195)	729	(20)	15,777	(215)
U.S. Treasury	204	(1)	—	—	204	(1)
Total temporarily impaired securities	$ 628,487	$ (8,121)	$ 74,187	$ (2,061)	$ 702,674	$ (10,182)

	December 31, 2020					
	Less Than 12 Months		More Than 12 Months		Total	
(Dollar amounts in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government entity mortgage-backed securities	$ —	$ —	$ 944	$ (1)	$ 944	$ (1)
Mortgage-backed securities, residential	76,962	(279)	—	—	76,962	(279)
Collateralized mortgage obligations	12,282	(108)	3,767	(49)	16,049	(157)
Municipal taxable	747	(3)	—	—	747	(3)
U.S. Treasury	250	—	—	—	250	—
Total temporarily impaired securities	$ 90,241	$ (390)	$ 4,711	$ (50)	$ 94,952	$ (440)

The Corporation held 221 investment securities with an amortized cost greater than fair value as of December 31, 2021. The unrealized losses on collateralized mortgage obligations, all mortgage-backed securities and state and municipal obligations represent negative adjustments to fair value relative to the rate of interest paid on the securities and not losses related to the creditworthiness of the issuer. Gross unrealized losses on investment securities were $10.2 million as of December 31, 2021 and $440 thousand as of December 31, 2020. Management does not intend to sell and it is not more likely than not that management would be required to sell the securities prior to their anticipated recovery. Management believes the value will recover as the securities approach maturity or market rates change.

Management evaluates securities for impairment related to credit losses at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. The investment securities portfolio is evaluated for impairment related to credit losses by segregating the portfolio into two general segments.

In evaluating for impairment, 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 security's amortized cost is written down to fair value through income. 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, a credit loss exists and an allowance for credit losses is recorded, limited to the amount that the fair value of the security is less than its amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income, net of applicable taxes.

In prior years, a significant portion of the total unrealized losses relates to collateralized debt obligations that were separately evaluated under FASB ASC 325-40, *Beneficial Interests in Securitized Financial Assets.* Based upon qualitative considerations, such as a downgrade in credit rating or further defaults of underlying issuers during the year, and an analysis of expected cash flows, we determined that three CDOs included in collateralized debt obligations were other-than-temporarily impaired. One of the CDO's was called in first quarter 2017. A second was called in second quarter 2018. The remaining CDO has a contractual balance of $3.7 million at December 31, 2021 which has been reduced to $3.4 million by $750 thousand of interest payments received, $3.0 million of cumulative credit loss charges recorded through earnings to date and increased by $3.4 million recorded in other comprehensive income. These securities are collateralized by trust preferred securities issued primarily by bank holding companies, but certain pools do include a limited number of insurance companies.

Collateralized debt obligations include one additional investment in a CDO consisting of pooled trust preferred securities in which the issuers are primarily banks. This CDO was paid in full in 2015. In the first quarter of 2017 a CDO with no remaining book value was called with the bank receiving $3.1 million, which is included in other non-interest income on the consolidated statements of income and comprehensive income. In the second quarter of 2018 one of the obligations was called, resulting in the elimination of the credit loss associated with that obligation. A recovery of previously recorded credit loss of $4.2 million was received and recognized in non-interest income for the period. In addition the Corporation received $2.4 million of interest income associated with the call.

The table below presents a rollforward of the credit losses recognized in earnings for the years presented:

(Dollar amounts in thousands)	2021	2020	2019
Beginning balance, January 1,	$ 2,974	$ 2,974	$ 2,974
Reductions for securities called during the period	—	—	—
Ending balance, December 31,	$ 2,974	$ 2,974	$ 2,974

5. LOANS:

Loans are summarized as follows:

	December 31,	
(Dollar amounts in thousands)	2021	2020
Commercial	$ 1,674,066	$ 1,521,711
Residential	664,509	604,652
Consumer	474,026	479,750
Total gross loans	2,812,601	2,606,113
Deferred costs, net	3,294	4,181
Allowance for credit losses	(48,305)	(44,076)
TOTAL	$ 2,767,590	$ 2,566,218

The Corporation periodically sells residential mortgage loans it originates based on the overall loan demand of the Corporation and the outstanding balances in the residential mortgage portfolio. At December 31, 2021 and 2020, loans held for sale were $4.2 million and $7.1 million, respectively, and are included in the totals above.

In the normal course of business, the Corporation's subsidiary banks make loans to directors and executive officers and to their associates. In 2021, the aggregate dollar amount of these loans to directors and executive officers who held office amounted to

$57.5 million at the beginning of the year. During 2021, advances of $57.5 million, repayments of $64.1 million, and additions for new directors of $0.0 million were made with respect to related party loans for an aggregate dollar amount outstanding of $50.9 million at December 31, 2021.

Loans serviced for others, which are not reported as assets, total $542.8 million and $490.4 million at year-end 2021 and 2020. Custodial escrow balances maintained in connection with serviced loans were $3.0 million and $3.0 million at year-end 2021 and 2020.

Activity for capitalized mortgage servicing rights (included in other assets) was as follows:

	December 31,		
(Dollar amounts in thousands)	**2021**	**2020**	**2019**
Servicing rights:			
Beginning of year	$ 1,601	$ 1,435	$ 1,431
Additions	1,094	956	579
Amortized to expense	(736)	(790)	(575)
End of year	$ 1,959	$ 1,601	$ 1,435

Third party valuations are conducted periodically for mortgage servicing rights. Based on these valuations, fair values were approximately $2.7 million and $2.4 million at year end 2021 and 2020. There was no valuation allowance in 2021 or 2020.

Fair value for 2021 was determined using a discount rate of 12.5%, prepayment speeds ranging from 185% to 453%, depending on the stratification of the specific right. Fair value at year end 2020 was determined using a discount rate of 12.5%, prepayment speeds ranging from 239% to 403%, depending on the stratification of the specific right. Mortgage servicing rights are amortized over 8 years, the expected life of the sold loans.

6. ACQUISITIONS:

On November 5, 2021, the Corporation completed its acquisition of Hancock Bancorp, Inc. and its banking subsidiary, Hancock Bank and Trust Company. Therefore, the results of Hancock Bancorp have been included in the results of operations beginning on November 5, 2021. Pursuant to the terms of the merger agreement, each issued and outstanding share of Hancock Bancorp, Inc. common stock, issued and outstanding, was converted into the right to receive $18.38 per share in cash. The aggregate value of the transaction was $31.36 million. Acquisition-related costs of $1.2 million are included in the Corporation's income statement for the year ended December 31, 2021.

Goodwill of $7.5 million arising from the acquisition consisted largely of synergies and the cost savings resulting from the combining of the operations of the companies. The goodwill is not deductible for income tax purposes as the transaction was accounted for as a tax-free exchange. The following table summarizes the consideration paid and the amounts of the assets acquired and liabilities assumed recognized at the acquisition date.

(Dollar amounts in thousands)

		2021
Consideration		
Cash consideration	$	31,358
Fair value of total consideration transferred	$	31,358
Assets acquired		
Cash	$	3,046
Investment securities available-for-sale		57,054
Federal funds sold		10,470
Bank owned life insurance		9,753
Federal Home Loan Bank stock		1,362
Loans		227,827
Premises and equipment		8,180
Core deposit intangibles		652
Other assets		4,567
Total assets acquired		322,911
Liabilities assumed		
Deposits		286,098
FHLB advances		11,042
Other liabilities		1,956
Total liabilities assumed		299,096
Net identifiable assets		23,815
Goodwill	$	7,543

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

The following table presents supplemental pro forma information as if the acquisition had occurred at the beginning of 2020. The unaudited pro forma information includes adjustments for interest income on loans and securities acquired, interest expense

on deposits acquired, and the related income tax effects. The pro forma financial information is not necessarily indicative of the results of operations that would have occurred had the transactions been effected on the assumed dates.

(Dollar amounts in thousands, except per share data)	Year ended December 31, 2021	Year ended December 31, 2020
Net interest income	$ 150,806	$ 156,051
Net income	$ 53,714	$ 55,958
Basic and diluted earnings per share	$ 4.07	$ 4.08

The fair value of purchased financial assets with credit deterioration was $12.9 million on the date of acquisition. The gross contractual amounts receivable relating to the purchased financial assets with credit deterioration was $18.3 million. The Corporation estimates, on the date of acquisition, that $4.4 million of the contractual cash flows specific to the purchased financial assets with credit deterioration will not be collected.

7. ALLOWANCE FOR CREDIT LOSSES:

The following table presents the activity of the allowance for credit losses by portfolio segment for the years ended December 31, 2021, 2020 and 2019.

Allowance for Credit Losses:	December 31, 2021				
(Dollar amounts in thousands)	Commercial	Residential	Consumer	Unallocated	Total
Beginning balance	$ 13,925	$ 19,142	$ 11,009	$ —	$ 44,076
PCD ACL on acquired loans	4,410	—	—		4,410
Provision for credit losses	1,637	(630)	1,074	385	2,466
Loans charged off	(2,158)	(812)	(5,246)	—	(8,216)
Recoveries	1,069	616	3,884	—	5,569
Ending Balance	$ 18,883	$ 18,316	$ 10,721	$ 385	$ 48,305

Allowance for Credit Losses:	December 31, 2020				
(Dollar amounts in thousands)	Commercial	Residential	Consumer	Unallocated	Total
Beginning balance	$ 8,945	$ 1,302	$ 8,304	$ 1,392	$ 19,943
Impact of adopting ASC 326	6,843	9,515	2,118		17,084
Provision for credit losses	(1,622)	8,612	3,538	—	10,528
Loans charged off	(1,097)	(944)	(6,355)	—	(8,396)
Recoveries	856	657	3,404	—	4,917
Ending Balance	$ 13,925	$ 19,142	$ 11,009	$ —	$ 44,076

Allowance for Credit Losses:	December 31, 2019				
(Dollar amounts in thousands)	Commercial	Residential	Consumer	Unallocated	Total
Beginning balance	$ 9,848	$ 1,313	$ 7,481	$ 1,794	$ 20,436
Provision for credit losses	621	(321)	4,802	(402)	4,700
Loans charged off	(2,616)	(1,050)	(7,007)	—	(10,673)
Recoveries	1,092	1,360	3,028	—	5,480
Ending Balance	$ 8,945	$ 1,302	$ 8,304	$ 1,392	$ 19,943

The following tables present the recorded investment in nonperforming loans by class of loans.

(Dollar amounts in thousands)	December 31, 2021 Loans Past Due Over 90 Day Still Accruing	Non-accrual	Non-accrual With No Allowance For Credit Loss
Commercial			
Commercial & Industrial	$ 14	$ 1,950	$ 1,662
Farmland	—	15	—
Non Farm, Non Residential	—	2,911	2,898
Agriculture	—	111	—
All Other Commercial	—	4	—
Residential			
First Liens	346	2,339	33
Home Equity	—	84	—
Junior Liens	89	294	—
Multifamily	—	225	—
All Other Residential	—	107	—
Consumer			
Motor Vehicle	94	864	—
All Other Consumer	—	686	—
TOTAL	$ 543	$ 9,590	$ 4,593

(Dollar amounts in thousands)	December 31, 2020 Loans Past Due Over 90 Day Still Accruing	Non-accrual	Non-accrual With No Allowance For Credit Loss
Commercial			
Commercial & Industrial	$ —	$ 4,838	$ 1,080
Farmland	—	195	—
Non Farm, Non Residential	—	3,729	3,267
Agriculture	—	409	—
All Other Commercial	—	533	24
Residential			
First Liens	1,746	2,604	86
Home Equity	88	30	—
Junior Liens	252	206	—
Multifamily	—	1,380	—
All Other Residential	—	135	—
Consumer			
Motor Vehicle	372	754	—
All Other Consumer	—	554	—
TOTAL	$ 2,458	$ 15,367	$ 4,457

During the years ending December 31, 2021, 2020, and 2019 the terms of certain loans were modified as troubled debt restructurings (TDRs). The following tables present the activity for TDR's.

				2021
(Dollar amounts in thousands)	Commercial	Residential	Consumer	Total
January 1,	$ —	$ 3,589	$ 617	$ 4,206
Added	407	491	402	1,300
Charged Off	—	(29)	(82)	(111)
Payments	—	(365)	(231)	(596)
December 31,	$ 407	$ 3,686	$ 706	$ 4,799

				2020
(Dollar amounts in thousands)	Commercial	Residential	Consumer	Total
January 1,	$ 11	$ 3,485	$ 698	$ 4,194
Added	—	692	304	996
Charged Off	—	(6)	(158)	(164)
Payments	(11)	(582)	(227)	(820)
December 31,	$ —	$ 3,589	$ 617	$ 4,206

				2019
(Dollar amounts in thousands)	Commercial	Residential	Consumer	Total
January 1,	$ 145	$ 4,043	$ 618	$ 4,806
Added	—	195	375	570
Charged Off	—	(24)	(81)	(105)
Payments	(134)	(729)	(214)	(1,077)
December 31,	$ 11	$ 3,485	$ 698	$ 4,194

Modification of the terms of such loans typically include one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; or a permanent reduction of the recorded investment in the loan. No modification in 2021, 2020 or 2019 resulted in the permanent reduction of the recorded investment in the loan. Modifications involving a reduction of the stated interest rate of the loan were for periods ranging from twelve months to five years. Modifications involving an extension of the maturity date were for periods ranging from twelve months to ten years.

During the years ended December 31, 2021, 2020 and 2019 the Corporation modified 39, 42, and 45 loans respectively as troubled debt restructurings. All of the loans modified were smaller balance residential and consumer loans. There were no loans that were charged off within 12 months of the modification for 2021, 2020, or 2019.

The Corporation had no allocation of specific reserves to customers whose loan terms have been modified in troubled debt restructurings at December 31, 2021, 2020, and 2019. The Corporation has not committed to lend additional amounts as of December 31, 2021 and 2020 to customers with outstanding loans that are classified as troubled debt restructurings.

The CARES Act includes a provision that permits a financial institution to elect to suspend temporarily troubled debt restructuring accounting under ASC Subtopic 310-40 in certain circumstances ("section 4013"). To be eligible under section 4013, a loan modification must be (1) related to COVID-19; (2) executed on a loan that was not more than 30 days past due as of December 31, 2019; and (3) executed between March 1, 2020, and the earlier of (A) 60 days after the date of termination of the National Emergency or (B) December 31, 2020. In response to this section of the CARES Act, the federal banking agencies issued a revised interagency statement on April 7, 2020 that, in consultation with the Financial Accounting Standards Board, confirmed that for loans not subject to section 4013, short-term modifications made on a good faith basis in response to COVID-19 to borrowers who were current prior to any relief are not troubled debt restructurings under ASC Subtopic 310-40. This includes short-term (e.g., up to six months) modifications such as payment deferrals, fee waivers, extensions of repayment terms, or delays in payment that are insignificant. Borrowers considered current are those that are less than 30 days past due on their contractual payments at the time a modification program is implemented. As of December 31, 2021, 1,225 loans totaling $253 million were modified, related to COVID-19, that were not considered troubled debt restructurings. As of December 31, 2020, 961 loans totaling $210 million have resumed normal scheduled payments. 204 remaining loans are still under a debt

relief plan, which include 9 commercial loans totaling $36 million that have been provided additional payment relief since the initial payment relief plan. 1 loan totaling $17 thousand is under the original payment relief plan.

The following table presents the amortized cost basis of collateral dependent loans by class of loans:

	December 31, 2021	
	Collateral Type	
(Dollar amounts in thousands)	Real Estate	Other
Commercial		
Commercial & Industrial	$ 17,734	$ 720
Farmland	3,669	—
Non Farm, Non Residential	6,135	—
Agriculture	—	—
All Other Commercial	—	—
Residential		
First Liens	33	—
Home Equity	—	—
Junior Liens	—	—
Multifamily	935	—
All Other Residential	—	—
Consumer		
Motor Vehicle	—	—
All Other Consumer	—	—
Total	$ 28,506	$ 720

	December 31, 2020	
	Collateral Type	
(Dollar amounts in thousands)	Real Estate	Other
Commercial		
Commercial & Industrial	$ 3,293	$ 2,221
Farmland	2,771	
Non Farm, Non Residential	6,838	
Agriculture	—	599
All Other Commercial	528	24
Residential		
First Liens	86	—
Home Equity	—	—
Junior Liens	—	—
Multifamily	1,380	—
All Other Residential	—	—
Consumer		
Motor Vehicle	—	—
All Other Consumer	—	—
Total	$ 14,896	$ 2,844

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

December 31, 2021 (Dollar amounts in thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 days Past Due	Total Past Due	Current	Total
Commercial						
Commercial & Industrial	$ 1,132	$ 388	$ 1,614	$ 3,134	$ 693,949	$ 697,083
Farmland	57	—	—	57	141,189	141,246
Non Farm, Non Residential	62	—	—	62	361,174	361,236
Agriculture	90	42	89	221	141,682	141,903
All Other Commercial	390	—	—	390	340,076	340,466
Residential						
First Liens	4,686	680	949	6,315	336,064	342,379
Home Equity	131	24	58	213	62,085	62,298
Junior Liens	179	120	283	582	50,048	50,630
Multifamily	342	146	—	488	178,849	179,337
All Other Residential	284	291	—	575	30,843	31,418
Consumer						
Motor Vehicle	7,633	1,105	486	9,224	433,095	442,319
All Other Consumer	192	37	—	229	33,425	33,654
TOTAL	$ 15,178	$ 2,833	$ 3,479	$ 21,490	$ 2,802,479	$ 2,823,969

December 31, 2020 (Dollar amounts in thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 days Past Due	Total Past Due	Current	Total
Commercial						
Commercial & Industrial	$ 685	$ 746	$ 3,364	$ 4,795	$ 603,777	$ 608,572
Farmland	22	—	91	113	118,528	118,641
Non Farm, Non Residential	155	—	271	426	350,681	351,107
Agriculture	28	30	275	333	146,147	146,480
All Other Commercial	—	—	24	24	305,612	305,636
Residential						
First Liens	5,506	1,866	2,365	9,737	314,730	324,467
Home Equity	260	29	104	393	60,362	60,755
Junior Liens	421	68	341	830	53,346	54,176
Multifamily	—	—	—	—	151,042	151,042
All Other Residential	—	50	—	50	15,918	15,968
Consumer						
Motor Vehicle	6,975	1,294	560	8,829	441,283	450,112
All Other Consumer	164	19	13	196	31,401	31,597
TOTAL	$ 14,216	$ 4,102	$ 7,408	$ 25,726	$ 2,592,827	$ 2,618,553

Credit Quality Indicators:

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

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

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

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

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

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans. Loans listed as not rated are either less than $100 thousand or are included in groups of homogeneous loans.

The following tables present the recorded investment of the commercial loan portfolio by risk category:

		December 31, 2021							
		Term Loans at Amortized Cost Basis by Origination Year						Revolving	
		2021	2020	2019	2018	2017	Prior	Loans	Total
Commercial									
Commercial and Industrial	Pass	$163,588	$ 71,271	$ 80,668	$ 40,441	$ 37,739	$113,887	$ 111,594	$ 619,188
	Special Mention	7,561	393	1,841	5,375	263	4,523	7,482	27,438
	Substandard	4,521	896	348	5,148	2,325	7,934	2,648	23,820
	Doubtful	—	—	—	—	—	—	—	—
	Not Rated	21,134	1,610	959	466	189	140	—	24,498
	Subtotal	$196,804	$ 74,170	$ 83,816	$ 51,430	$ 40,516	$126,484	$ 121,724	$ 694,944
Farmland	Pass	$ 25,673	$ 12,060	$ 13,111	$ 13,246	$ 11,049	$ 49,158	$ 1,418	$ 125,715
	Special Mention	—	1,191	914	—	342	3,247	—	5,694
	Substandard	3,455	444	—	326	558	2,876	—	7,659
	Doubtful	—	—	—	—	—	—	—	—
	Not Rated	—	—	—	—	—	—	—	—
	Subtotal	$ 29,128	$ 13,695	$ 14,025	$ 13,572	$ 11,949	$ 55,281	$ 1,418	$ 139,068
Non Farm, Non Residential	Pass	$ 81,203	$ 37,971	$ 24,716	$ 32,775	$ 54,732	$ 97,241	$ 10,548	$ 339,186
	Special Mention	—	—	1,103	182	1,948	1,996	—	5,229
	Substandard	—	—	910	—	1,440	13,391	—	15,741
	Doubtful	—	—	—	—	—	—	—	—
	Not Rated	—	—	—	—	—	402	—	402
	Subtotal	$ 81,203	$ 37,971	$ 26,729	$ 32,957	$ 58,120	$113,030	$ 10,548	$ 360,558
Agriculture	Pass	$ 14,426	$ 10,386	$ 10,135	$ 2,585	$ 4,932	$ 15,755	$ 68,937	$ 127,156
	Special Mention	—	—	1,000	—	537	271	5,257	7,065
	Substandard	—	20	216	—	46	485	4,828	5,595
	Doubtful	—	—	—	—	—	—	—	—
	Not Rated	110	120	131	55	1	—	—	417
	Subtotal	$ 14,536	$ 10,526	$ 11,482	$ 2,640	$ 5,516	$ 16,511	$ 79,022	$ 140,233
Other Commercial	Pass	$ 77,821	$ 69,117	$ 33,231	$ 36,495	$ 53,479	$ 58,819	$ 3,488	$ 332,450
	Special Mention	—	—	—	—	—	6,106	—	6,106
	Substandard	72	—	25	475	—	9	—	581
	Doubtful	—	—	—	—	—	—	—	—
	Not Rated	89	—	—	37	—	—	—	126
	Subtotal	$ 77,982	$ 69,117	$ 33,256	$ 37,007	$ 53,479	$ 64,934	$ 3,488	$ 339,263
Residential									
Multifamily >5 Residential	Pass	$ 37,244	$ 63,312	$ 16,037	$ 7,471	$ 5,370	$ 35,284	$ 1,434	$ 166,152
	Special Mention	—	—	—	—	—	10,282	—	10,282
	Substandard	—	—	—	—	—	958	—	958
	Doubtful	—	—	—	—	—	—	—	—
	Not Rated	1,149	—	—	—	44	384	—	1,577
	Subtotal	$ 38,393	$ 63,312	$ 16,037	$ 7,471	$ 5,414	$ 46,908	$ 1,434	$ 178,969
Total	Pass	$399,955	$264,117	$177,898	$133,013	$167,301	$370,144	$ 197,419	$1,709,847
	Special Mention	7,561	1,584	4,858	5,557	3,090	26,425	12,739	61,814
	Substandard	8,048	1,360	1,499	5,949	4,369	25,653	7,476	54,354
	Doubtful	—	—	—	—	—	—	—	—
	Not Rated	22,482	1,730	1,090	558	234	926	—	27,020
Total commercial loans		$438,046	$268,791	$185,345	$145,077	$174,994	$423,148	$ 217,634	$1,853,035

		December 31, 2020							
		Term Loans at Amortized Cost Basis by Origination Year						Revolving	
		2020	2019	2018	2017	2016	Prior	Loans	Total
Commercial									
Commercial and Industrial	Pass	$159,494	$ 77,253	$ 64,298	$ 41,806	$ 20,564	$103,598	$ 91,615	$ 558,628
	Special Mention	4,848	1,331	4,427	216	1,278	4,566	3,695	20,361
	Substandard	3,780	323	4,187	1,148	3,543	2,565	3,124	18,670
	Doubtful	—	—	—	—	—	—	—	—
	Not Rated	2,618	1,772	1,446	580	105	2,255	—	8,776
	Subtotal	$170,740	$ 80,679	$ 74,358	$ 43,750	$ 25,490	$112,984	$ 98,434	$ 606,435
Farmland	Pass	$ 10,010	$ 12,775	$ 12,149	$ 10,089	$ 15,863	$ 40,338	$ 1,386	$ 102,610
	Special Mention	988	947	—	230	1,900	2,656	—	6,721
	Substandard	1,718	2,303	—	716	1,628	826	—	7,191
	Doubtful	—	—	—	—	—	—	—	—
	Not Rated	—	—	—	—	—	—	—	—
	Subtotal	$ 12,716	$ 16,025	$ 12,149	$ 11,035	$ 19,391	$ 43,820	$ 1,386	$ 116,522
Non Farm, Non Residential	Pass	$ 39,914	$ 33,261	$ 38,111	$ 63,371	$ 49,511	$ 83,052	$ 4,092	$ 311,312
	Special Mention	—	998	—	305	9,982	6,811	—	18,096
	Substandard	—	1,188	—	4,310	7,484	7,028	—	20,010
	Doubtful	—	—	—	—	—	—	—	—
	Not Rated	—	—	—	—	—	682	—	682
	Subtotal	$ 39,914	$ 35,447	$ 38,111	$ 67,986	$ 66,977	$ 97,573	$ 4,092	$ 350,100
Agriculture	Pass	$ 13,336	$ 8,330	$ 3,485	$ 5,329	$ 3,732	$ 16,792	$ 67,052	$ 118,056
	Special Mention	—	1,483	1,203	664	5	428	7,611	11,394
	Substandard	—	3,834	18	223	2,435	1,988	5,926	14,424
	Doubtful	—	—	—	—	—	—	—	—
	Not Rated	159	216	110	6	13	—	—	504
	Subtotal	$ 13,495	$ 13,863	$ 4,816	$ 6,222	$ 6,185	$ 19,208	$ 80,589	$ 144,378
Other Commercial	Pass	$ 44,673	$ 57,200	$ 41,470	$ 61,442	$ 40,196	$ 50,325	$ 5,162	$ 300,468
	Special Mention	—	—	—	7	—	2,786	—	2,793
	Substandard	—	—	—	24	528	24	—	576
	Doubtful	—	—	—	—	—	—	—	—
	Not Rated	—	3	52	39	345	—	—	439
	Subtotal	$ 44,673	$ 57,203	$ 41,522	$ 61,512	$ 41,069	$ 53,135	$ 5,162	$ 304,276
Residential									
Multifamily >5 Residential	Pass	$ 44,599	$ 9,892	$ 36,563	$ 19,749	$ 4,676	$ 21,704	$ 1,293	$ 138,476
	Special Mention	—	—	—	—	102	10,662	—	10,764
	Substandard	—	—	1,380	—	—	—	—	1,380
	Doubtful	—	—	—	—	—	—	—	—
	Not Rated	—	—	—	—	—	—	—	—
	Subtotal	$ 44,599	$ 9,892	$ 37,943	$ 19,749	$ 4,778	$ 32,366	$ 1,293	$ 150,620
Total	Pass	$312,026	$198,711	$196,076	$201,786	$134,542	$315,809	$ 170,600	$1,529,550
	Special Mention	5,836	4,759	5,630	1,422	13,267	27,909	11,306	70,129
	Substandard	5,498	7,648	5,585	6,421	15,618	12,431	9,050	62,251
	Doubtful	—	—	—	—	—	—	—	—
	Not Rated	2,777	1,991	1,608	625	463	2,937	—	10,401
Total commercial loans		$326,137	$213,109	$208,899	$210,254	$163,890	$359,086	$ 190,956	$1,672,331

The Corporation evaluates the credit quality of its other loan portfolios, which includes residential real estate, consumer and lease financing loans, based primarily on the aging status of the loan and payment activity. Accordingly, loans on non-accrual status, loans past due 90 days or more and still accruing interest, and loans modified under troubled debt restructurings are considered to be nonperforming for purposes of credit quality evaluation. The following table presents the recorded investment of our other loan portfolio based on the credit risk profile of loans that are performing and loans that are nonperforming:

		December 31, 2021							
		Term Loans at Amortized Cost Basis by Origination Year						Revolving	
		2021	2020	2019	2018	2017	Prior	Loans	Total
Residential									
First Liens	Performing	$ 86,224	$ 49,633	$22,262	$24,377	$26,437	$126,828	$ 3,061	$338,822
	Non-performing	—	—	35	69	160	2,421	—	2,685
	Subtotal	$ 86,224	$ 49,633	$22,297	$24,446	$26,597	$129,249	$ 3,061	$341,507
Home Equity	Performing	$ 757	$ 9	$ 152	$ 719	$ 62	$ 1,332	$ 59,059	$ 62,090
	Non-performing	—	25	—	—	3	57	—	85
	Subtotal	$ 757	$ 34	$ 152	$ 719	$ 65	$ 1,389	$ 59,059	$ 62,175
Junior Liens	Performing	$ 13,255	$ 10,189	$ 8,124	$ 7,888	$ 4,158	$ 5,554	$ 968	$ 50,136
	Non-performing	—	6	64	97	119	94	—	380
	Subtotal	$ 13,255	$ 10,195	$ 8,188	$ 7,985	$ 4,277	$ 5,648	$ 968	$ 50,516
Other Residential	Performing	$ 20,218	$ 6,665	$ 1,697	$ 662	$ 883	$ 1,092	$ —	$ 31,217
	Non-performing	—	—	55	43	—	27	—	125
	Subtotal	$ 20,218	$ 6,665	$ 1,752	$ 705	$ 883	$ 1,119	$ —	$ 31,342
Consumer									
Motor Vehicle	Performing	$188,675	$155,156	$60,676	$23,367	$ 9,307	$ 2,384	$ —	$439,565
	Non-performing	199	373	191	109	43	23	—	938
	Subtotal	$188,874	$155,529	$60,867	$23,476	$ 9,350	$ 2,407	$ —	$440,503
Other Consumer	Performing	$ 14,924	$ 8,225	$ 3,119	$ 948	$ 304	$ 1,121	$ 4,194	$ 32,835
	Non-performing	342	181	107	35	18	3	2	688
	Subtotal	$ 15,266	$ 8,406	$ 3,226	$ 983	$ 322	$ 1,124	$ 4,196	$ 33,523
Total	Performing	$324,053	$229,877	$96,030	$57,961	$41,151	$138,311	$ 67,282	$954,665
	Non-performing	541	585	452	353	343	2,625	2	4,901
Total other loans		$324,594	$230,462	$96,482	$58,314	$41,494	$140,936	$ 67,284	$959,566

		December 31, 2020							
		Term Loans at Amortized Cost Basis by Origination Year						Revolving	
		2020	2019	2018	2017	2016	Prior	Loans	Total
Residential									
First Liens	Performing	$ 47,875	$ 33,737	$31,634	$36,426	$30,419	$135,456	$ 3,235	$318,782
	Non-performing	—	40	95	343	107	4,062	—	4,647
	Subtotal	$ 47,875	$ 33,777	$31,729	$36,769	$30,526	$139,518	$ 3,235	$323,429
Home Equity	Performing	$ 854	$ 135	$ 644	$ 20	$ —	$ 1,525	$ 57,334	$ 60,512
	Non-performing	—	—	1	—	—	91	24	116
	Subtotal	$ 854	$ 135	$ 645	$ 20	$ —	$ 1,616	$ 57,358	$ 60,628
Junior Liens	Performing	$ 13,125	$ 12,742	$11,139	$ 6,214	$ 3,948	$ 5,099	$ 1,333	$ 53,600
	Non-performing	—	129	48	198	9	66	—	450
	Subtotal	$ 13,125	$ 12,871	$11,187	$ 6,412	$ 3,957	$ 5,165	$ 1,333	$ 54,050
Other Residential	Performing	$ 9,773	$ 2,775	$ 1,372	$ 292	$ 178	$ 733	$ 651	$ 15,774
	Non-performing	—	62	50	—	—	39	—	151
	Subtotal	$ 9,773	$ 2,837	$ 1,422	$ 292	$ 178	$ 772	$ 651	$ 15,925
Consumer									
Motor Vehicle	Performing	$245,839	$113,293	$51,649	$24,786	$10,026	$ 1,600	$ —	$447,193
	Non-performing	318	355	257	127	36	11	—	1,104
	Subtotal	$246,157	$113,648	$51,906	$24,913	$10,062	$ 1,611	$ —	$448,297
Other Consumer	Performing	$ 15,298	$ 7,328	$ 2,622	$ 724	$ 854	$ 703	$ 3,352	$ 30,881
	Non-performing	231	200	92	22	—	8	19	572
	Subtotal	$ 15,529	$ 7,528	$ 2,714	$ 746	$ 854	$ 711	$ 3,371	$ 31,453
Total	Performing	$332,764	$170,010	$99,060	$68,462	$45,425	$145,116	$ 65,905	$926,742
	Non-performing	549	786	543	690	152	4,277	43	7,040
Total other loans		$333,313	$170,796	$99,603	$69,152	$45,577	$149,393	$ 65,948	$933,782

8. PREMISES AND EQUIPMENT:

Premises and equipment are summarized as follows:

(Dollar amounts in thousands)	December 31, 2021	December 31, 2020
Land	$ 18,612	$ 17,574
Building and leasehold improvements	73,739	66,658
Furniture and equipment	44,839	42,167
	137,190	126,399
Less accumulated depreciation	(67,668)	(64,336)
TOTAL	$ 69,522	$ 62,063

Aggregate depreciation expense was $4.6 million, $4.4 million and $3.9 million for 2021, 2020 and 2019, respectively.

The Company leases certain branch properties and equipment under operating leases. Rent expense was $1.4 million, $1.1 million, and $1.1 million for 2021, 2020, and 2019. Rent commitments, before considering renewal options that generally are present, were as follows:

2022	$ 922
2023	799
2024	530
2025	425
2026	260
Thereafter	838
	$ 3,774

See Note 19 for additional discussion on leases.

9. GOODWILL AND INTANGIBLE ASSETS:

The Corporation completed its annual impairment testing of goodwill during the fourth quarter of 2021 and 2020. Management does not believe any amount of goodwill is impaired.

Goodwill was as follows at year-end:

	2021	2020	2019
Beginning of year	$ 78,592	$ 78,592	$ 34,355
Acquired goodwill	7,543	—	44,237
Impairment	—	—	—
End of year	$ 86,135	$ 78,592	$ 78,592

Intangible assets subject to amortization at December 31, 2021 and 2020 are as follows:

	2021		2020	
(Dollar amounts in thousands)	**Gross Amount**	**Accumulated Amortization**	**Gross Amount**	**Accumulated Amortization**
Core deposit intangible	$ 21,205	$ 13,849	$ 21,205	$ 12,233
Acquired cored deposit intangible	652	(16)	—	—
	$ 21,857	$ 13,833	$ 21,205	$ 12,233

Aggregate amortization expense was $1.6 million, $1.7 million and $923 thousand for 2021, 2020 and 2019, respectively.

Estimated amortization expense for the next five years is as follows:

	In thousands
2022	$ 1,311
2023	1,128
2024	888
2025	786
2026	679

10. DEPOSITS:

Scheduled maturities of time deposits for the next five years are as follows:

	(dollar amounts in thousands)
2022	$ 326,173
2023	136,691
2024	55,180
2025	17,710
2026	13,971

11. SHORT-TERM BORROWINGS:

A summary of the carrying value of the Corporation's short-term borrowings at December 31, 2021 and 2020 is presented below:

(Dollar amounts in thousands)	**2021**	**2020**
Federal funds purchased	$ 3,275	$ 6,500
Repurchase-agreements	90,099	109,561
	$ 93,374	$ 116,061

(Dollar amounts in thousands)	2021	2020
Average amount outstanding	$ 99,810	$ 90,561
Maximum amount outstanding at a month end	117,337	116,061
Average interest rate during year	0.40 %	0.63 %
Interest rate at year-end	0.08 %	0.11 %

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

Securities are pledged to cover these liabilities, which are not covered by federal deposit insurance. The Corporation maintains possession of and control over these securities.

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

	December 31, 2021				
Repurchase Agreements and Repurchase to Maturity Transactions	Remaining Contractual Maturity of the Agreements				
(Dollar amounts in thousands)	Overnight and continuous	Up to 30 days	30 - 90 days	Greater than 90 days	Total
Mortgage Backed Securities - Residential and Collateralized Mortgage Obligations	$ 83,576	$ —	$ 5,816	$ 707	$ 90,099

	December 31, 2020				
Repurchase Agreements and Repurchase to Maturity Transactions	Remaining Contractual Maturity of the Agreements				
(Dollar amounts in thousands)	Overnight and continuous	Up to 30 days	30 - 90 days	Greater than 90 days	Total
Mortgage Backed Securities - Residential and Collateralized Mortgage Obligations	$ 86,335	$ 1,086	$ 21,342	$ 798	$109,561

12. OTHER BORROWINGS:

Other borrowings at December 31, 2020 and 2019 are summarized as follows:

(Dollar amounts in thousands)	2021	2020
FHLB advances	$ 15,937	$ 5,859
Junior subordinated debentures	—	—
TOTAL	$ 15,937	$ 5,859

The aggregate minimum annual retirements of other borrowings are as follows:

2022	$ —
2023	6,933
2024	2,658
2025	5,929
2026	417
Thereafter	—
	$ 15,937

At December 31, 2021 and 2020, other borrowings are summarized as follows: The Corporation's subsidiary banks are members of the Federal Home Loan Bank (FHLB) and accordingly are permitted to obtain advances. There are $15.9 million of advances from the FHLB at December 31, 2021, and $5.9 million of advances at December 31, 2020, which accrue interest, payable monthly, at annual rates, primarily fixed, varying from 0.68% to 3.32% in 2021 and 0.25% to 0.39% during the year in 2020. FHLB advances are, generally, due in full at maturity. They are secured by eligible securities totaling $58.5 million at December 31, 2021, and $97.1 million at December 31, 2020, and a blanket pledge on real estate loan collateral. Based on this collateral and the Corporation's holdings of FHLB stock, the Corporation is eligible to borrow up to $232.2 million at year end 2021. Certain advances may be prepaid, without penalty, prior to maturity. The FHLB can adjust the interest rate from fixed to variable on certain advances, but those advances may then be prepaid, without penalty.

13. REVENUE FROM CONTRACTS WITH CUSTOMERS:

All of the Corporation's revenue from contracts with customers in the scope of ASC 606 is recognized within Non-Interest Income. The following table presents the Corporation's sources of Non-Interest Income for the years ended December 31, 2021 and 2020. Items outside the scope of ASC 606 are noted as such.

	Years Ended December 31,	
(Dollar amounts in thousands)	2021	2020
Non-interest income		
Service charges on deposits and debit card fee income	$ 24,700	$ 21,809
Asset management fees	5,255	4,838
Interchange income	438	344
Net gains on sales of loans [(a)]	5,003	6,626
Loan servicing fees [(a)]	1,849	1,715
Net gains on sales of securities [(a)]	114	233
Other service charges and fees [(a)]	1,163	1,888
Other [(b)]	3,562	5,023
Total non-interest income	$ 42,084	$ 42,476

[(a)] Not within the scope of ASC 606.

[(b)] The Other category includes gains/(losses) on the sale of OREO for the years ended December 31, 2021 and December 31, 2020, totaling $5 thousand and $942 thousand, respectively, which is within the scope of ASC 606; the remaining balance is outside the scope of ASC 606.

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

Asset management fees: The Corporation earns asset management fees from its contracts with trust customers to manage assets for investment, and/or to transact on their accounts. These fees are primarily earned over time as the Corporation provides the contracted monthly or quarterly services and are generally assessed based on a tiered scale of the market value of

assets under management at month-end. Fees that are transaction based, including trade execution services, are recognized at the point in time that the transaction is executed, i.e. the trade date. Other related services provided and the fees the Corporation earns, which are based on a fixed fee schedule, are recognized when the services are rendered.

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

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

14. INCOME TAXES:

Income tax expense is summarized as follows:

(Dollar amounts in thousands)	2021	2020	2019
Federal:			
Currently payable	$ 7,978	$ 7,886	$ 7,118
Deferred	1,488	1,188	2,435
	9,466	9,074	9,553
State:			
Currently payable	3,080	2,422	2,168
Deferred	80	196	406
	3,160	2,618	2,574
TOTAL	$ 12,626	$ 11,692	$ 12,127

The reconciliation of income tax expense with the amount computed by applying the statutory federal income tax rate of 21% to income before income taxes is summarized as follows:

(Dollar amounts in thousands)	2021	2020	2019
Federal income taxes computed at the statutory rate	$ 13,779	$ 13,763	$ 12,810
Add (deduct) tax effect of:			
Tax exempt income	(2,745)	(2,643)	(2,551)
ESOP dividend deduction	(101)	(98)	(115)
State tax, net of federal benefit	2,496	2,068	2,034
General business tax credits	(716)	(1,648)	(148)
Other, net	(87)	250	97
TOTAL	$ 12,626	$ 11,692	$ 12,127

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at December 31, 2021 and 2020, are as follows:

(Dollar amounts in thousands)	2021	2020
Deferred tax assets:		
Other than temporary impairment	$ 764	$ 753
Net unrealized losses on retirement plans	6,033	8,132
Loan loss provisions	12,476	12,150
Unfunded commitments	764	—
Deferred compensation	2,367	2,496
Compensated absences	739	623
Post-retirement benefits	1,284	1,286
Lease liability	1,597	1,450
Purchase accounting	1,333	1,060
Deferred loss on acquisition	—	—
Other	2,770	2,186
GROSS DEFERRED ASSETS	30,127	30,136
Deferred tax liabilities:		
Net unrealized gains on securities available-for-sale	(4,269)	(8,752)
Depreciation	(1,611)	(2,155)
Mortgage servicing rights	(515)	(390)
Pensions	(1,647)	(843)
Right-of-use asset	(1,591)	(1,446)
Intangibles	(5,717)	(5,458)
FHLB stock dividends	(32)	(111)
Other	(4,113)	(3,963)
GROSS DEFERRED LIABILITIES	(19,495)	(23,118)
NET DEFERRED TAX ASSETS	$ 10,632	$ 7,018

Unrecognized Tax Benefits — A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

(Dollar amounts in thousands)	2021	2020	2019
Balance at January 1	$ 867	$ 825	$ 922
Additions based on tax positions related to the current year	9	114	298
Additions based on tax positions related to prior years	—	—	—
Reductions due to the statute of limitations	(68)	(72)	(395)
Balance at December 31	$ 808	$ 867	$ 825

Of this total, $808 thousand represents the amount of unrecognized tax benefits that, if recognized, would favorably affect the effective income tax rate in future periods. The Corporation does not expect the total amount of unrecognized tax benefits to significantly increase or decrease in the next 12 months.

The total amount of interest and penalties recorded in the income statement for the years ended December 31, 2021, 2020 and 2019 was an expense increase of $21 thousand, an increase of $11 thousand, and an decrease of $9 thousand, respectively. The amount accrued for interest and penalties at December 31, 2021, 2020 and 2019 was $85 thousand, $64 thousand and $53 thousand, respectively.

The Corporation and its subsidiaries are subject to U.S. federal income tax as well as income tax of the states of Indiana and Illinois. The Corporation is no longer subject to examination by taxing authorities for years before 2018.

15. FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK:

The Corporation is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include conditional commitments and commercial letters of credit. The financial instruments involve to varying degrees, elements of credit and interest rate risk in excess of amounts recognized in the financial statements. The Corporation's maximum exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to make loans is limited generally by the contractual amount of those instruments. The Corporation follows the same credit policy to make such commitments as is followed for those loans recorded in the consolidated financial statements.

Commitment and contingent liabilities are summarized as follows at December 31:

(Dollar amounts in thousands)	2021	2020
Home Equity	$ 92,346	$ 88,672
Commercial Operating Lines	610,965	508,602
Other Commitments	120,111	119,108
TOTAL	$ 823,422	$ 716,382
Commercial letters of credit	$ 7,042	$ 3,601

The majority of commercial operating lines and home equity lines are variable rate, while the majority of other commitments to fund loans are fixed rate. Fixed rate commitments had a range of interest rates from 3.25% to 6.00% in 2021. In 2020 this range of rates was from 3.25% to 6.00%. Since many commitments to make loans expire without being used, these amounts do not necessarily represent future cash commitments. Collateral obtained upon exercise of the commitment is determined using management's credit evaluation of the borrower, and may include accounts receivable, inventory, property, land and other items. The approximate duration of these commitments is generally one year or less.

Derivatives: The Corporation enters into derivative instruments for the benefit of its customers. At the inception of a derivative contract, the Corporation designates the derivative as an instrument with no hedging designation ("standalone derivative"). Changes in the fair value of derivatives are reported currently in earnings as non-interest income. Net cash settlements on derivatives that do not qualify for hedge accounting are reported in non-interest income.

First Financial Bank offers clients the ability on certain transactions to enter into interest rate swaps. Typically, these are pay fixed, receive floating swaps used in conjunction with commercial loans. These derivative contracts do not qualify for hedge accounting. The Bank hedges the exposure to these contracts by entering into offsetting contracts with substantially matching terms. The notional amount of these interest rate swaps was $32.9 million and $29.1 million at December 31, 2021 and 2020. The fair value of these contracts combined was zero, as gains offset losses. The gross losses associated with these interest rate swaps was $1.0 million and $2.5 million at December 31, 2021 and 2020.

16. RETIREMENT PLANS:

Employees of the Corporation are covered by a retirement program that consists of a defined benefit plan and an employee stock ownership plan (ESOP). Plan assets consist primarily of the Corporation's stock and obligations of U.S. Government agencies. Benefits under the defined benefit plan are actuarially determined based on an employee's service and compensation, as defined, and funded as necessary. This plan was frozen for the majority of employees as of December 31, 2012.Those employees will be eligible to participate in a 401K plan that the Corporation can contribute a discretionary match of the pay contributed by the employee. In addition the ESOP plan will continue in place for all employees.

Assets in the ESOP are considered in calculating the funding to the defined benefit plan required to provide such benefits. Any shortfall of benefits under the ESOP are to be provided by the defined benefit plan. The ESOP may provide benefits beyond those determined under the defined benefit plan. Contributions to the ESOP are determined by the Corporation's Board of Directors. The Corporation made contributions to the defined benefit plan of $2.05 million, $4.44 million and $1.77 million in 2021, 2020 and 2019. The Corporation contributed $1.40 million, $1.47 million and $1.25 million to the ESOP in 2021, 2020 and 2019. There were contributions of $1.1 million, $1.2 million and $926 thousand to the ESOP for employees no longer participating in the defined benefit plan in 2021, 2020 and 2019 respectively.

The Corporation uses a measurement date of December 31.

Net periodic benefit cost and other amounts recognized in other comprehensive income included the following components:

(Dollar amounts in thousands)	2021	2020	2019
Service cost - benefits earned	$ 1,355	$ 1,300	$ 1,218
Interest cost on projected benefit obligation	2,632	3,116	3,465
Expected return on plan assets	(4,713)	(4,198)	(3,585)
Net amortization and deferral	2,072	1,968	1,558
Net periodic pension cost	1,346	2,186	2,656
Net loss (gain) during the period	(5,883)	3,188	6,362
Amortization of prior service cost	(1)	(1)	(1)
Amortization of unrecognized gain (loss)	(2,072)	(1,967)	(1,558)
Total recognized in other comprehensive (income) loss	(7,956)	1,220	4,803
Total recognized net periodic pension cost and other comprehensive income	$ (6,610)	$ 3,406	$ 7,459

The information below sets forth the change in projected benefit obligation, reconciliation of plan assets, and the funded status of the Corporation's retirement program. Actuarial present value of benefits is based on service to date and present pay levels.

(Dollar amounts in thousands)	2021	2020
Change in benefit obligation:		
Benefit obligation at January 1	$ 109,922	$ 102,791
Service cost	1,355	1,300
Interest cost	2,632	3,116
Actuarial (gain) loss	(2,943)	6,845
Benefits paid	(4,470)	(4,130)
Benefit obligation at December 31	106,496	109,922
Reconciliation of fair value of plan assets:		
Fair value of plan assets at January 1	82,437	73,962
Actual return on plan assets	7,654	7,856
Employer contributions	2,358	4,749
Benefits paid	(4,470)	(4,130)
Fair value of plan assets at December 31	87,979	82,437
Funded status at December 31 (plan assets less benefit obligation)	$ (18,517)	$ (27,485)

Amounts recognized in accumulated other comprehensive income at December 31, 2021 and 2020 consist of:

(Dollar amounts in thousands)	2021	2020
Net loss (gain)	$ 21,051	$ 29,006
Prior service cost (credit)	—	1
	$ 21,051	$ 29,007

The accumulated benefit obligation for the defined benefit pension plan was $102.4 million and $105.2 million at year-end 2021 and 2020.

Principal assumptions used to determine pension benefit obligation at year end:	2021	2020
Discount rate	2.83 %	2.52 %
Rate of increase in compensation levels	3.00	3.00

Principal assumptions used to determine net periodic pension cost:	2021	2020
Discount rate	2.52 %	3.22 %
Rate of increase in compensation levels	3.00	3.00
Expected long-term rate of return on plan assets	6.00	6.00

The expected long-term rate of return was estimated using market benchmarks for equities and bonds applied to the plan's target asset allocation. Management estimated the rate by which plan assets would perform based on historical experience as adjusted for changes in asset allocations and expectations for future return on equities as compared to past periods.

Plan Assets — The Corporation's pension plan weighted-average asset allocation for the years 2021 and 2020 by asset category are as follows:

	Pension Plan Target Allocation	ESOP Target Allocation	Pension Percentage of Plan Assets at December 31,		ESOP Percentage of Plan Assets at December 31,	
ASSET CATEGORY	**2021**	**2021**	**2021**	**2020**	**2021**	**2020**
Equity securities	25-75%	95-99%	63 %	63 %	98 %	99 %
Debt securities	0-50%	0-0%	32 %	31 %	— %	— %
Other	0-20%	0-5%	5 %	6 %	2 %	1 %
TOTAL			100 %	100 %	100 %	100 %

Fair Value of Plan Assets — Fair value is the exchange price that would be received for an asset in the principal or most advantageous market for the asset in an orderly transaction between market participants on the measurement date. It also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The Corporation used the following methods and significant assumptions to estimate the fair value of each type of financial instrument:

Equity, Debt, Investment Funds and Other Securities — The fair values for investment securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3).

The fair value of the plan assets at December 31, 2021 and 2020, by asset category, is as follows:

		Fair Value Measurements at December 31, 2021 Using:		
(Dollar amounts in thousands)	**Total**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Observable Inputs (Level 3)**
Plan assets				
Equity securities	$ 62,382	$ 62,382	$ —	$ —
Debt securities	10,102	—	10,102	—
Investment Funds	15,495	15,495	—	—
Total plan assets	$ 87,979	$ 77,877	$ 10,102	$ —

(Dollar amounts in thousands)	Total	Fair Value Measurements at December 31, 2020 Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Observable Inputs (Level 3)
Plan assets				
Equity securities	$ 55,235	$ 55,235	$ —	$ —
Debt securities	12,673	—	12,673	—
Investment Funds	14,529	14,529	—	—
Total plan assets	$ 82,437	$ 69,764	$ 12,673	$ —

The investment objective for the retirement program is to maximize total return without exposure to undue risk. Asset allocation favors equities. This target includes the Corporation's ESOP, which is fully invested in corporate stock. Other investment allocations include fixed income securities and cash.

The plan is prohibited from investing in the following: private placement equity and debt transactions; letter stock and uncovered options; short-sale margin transactions and other specialized investment activity; and fixed income or interest rate futures. All other investments not prohibited by the plan are permitted.

Equity securities in the defined benefit plan include First Financial Corporation common stock in the amount of $18.1 million (21 percent of total plan assets) and $16.5 million (20 percent of total plan assets) at December 31, 2021 and 2020, respectively. In addition the ESOP for non plan participants holds an estimated $7.2 million and $5.5 million of First Financial Corporation stock at December 31, 2021 and December 31, 2020 respectively. Other equity securities are predominantly stocks in large cap U.S. companies.

Contributions — The Corporation expects to contribute $250 thousand to its pension plan and $703 thousand to its ESOP in 2022.

Estimated Future Payments — The following benefit payments, which reflect expected future service, are expected:

PENSION BENEFITS

(Dollar amounts in thousands)

2022	$ 5,889
2023	6,107
2024	6,293
2025	6,430
2026	6,663
2027-2031	34,497

Supplemental Executive Retirement Plan — The Corporation has established a Supplemental Executive Retirement Plan (SERP) for certain executive officers. The provisions of the SERP allow the Plan's participants who are also participants in the Corporation's defined benefit pension plan to receive supplemental retirement benefits to help recompense for benefits lost due to the imposition of IRS limitations on benefits under the Corporation's tax qualified defined benefit pension plan. Expenses related to the plan were $748 thousand in 2021 and $539 thousand in 2020 and $339 thousand in 2019.The plan is unfunded and has a measurement date of December 31. The amounts recognized in other comprehensive income in the current year are as follows:

(Dollar amounts in thousands)	2021	2020	2019
Net loss (gain) during the period	$ 54	$ 1,459	$ 1,357
Amortization of prior service cost	—	—	—
Amortization of unrecognized (gain) loss	(441)	(246)	(75)
Total recognized in other comprehensive (income) loss	$ (387)	$ 1,213	$ 1,282

The Corporation has $8.8 million and $8.4 million recognized in the balance sheet as a liability at December 31, 2021 and 2020. Amounts in accumulated other comprehensive income consist of $3.2 million net loss at December 31, 2021 and $3.6 million net loss at December 31, 2020.

Estimated Future Payments — The following benefit payments, which reflect expected future service, are expected:

(Dollar amounts on thousands)	
2022	$ —
2023	203
2024	399
2025	390
2026	380
2027-2031	3,104

Post-retirement medical benefits — The Corporation also provides medical benefits to certain employees subsequent to their retirement. The Corporation uses a measurement date of December 31. Accrued post-retirement benefits as of December 31, 2021 and 2020 are as follows:

	December 31,	
(Dollar amounts in thousands)	2021	2020
Change in benefit obligation:		
Benefit obligation at January 1	$ 4,147	$ 3,975
Service cost	43	38
Interest cost	103	125
Plan participants' contributions	34	75
Actuarial (gain) loss	(53)	238
Benefits paid	(259)	(304)
Benefit obligation at December 31	$ 4,015	$ 4,147
Funded status at December 31	$ 4,015	$ 4,147

Amounts recognized in accumulated other comprehensive income consist of a net loss of $212 thousand at December 31, 2021 and $266 thousand net loss at December 31, 2020. The post-retirement benefits paid in 2021 and 2020 of $259 thousand and $305 thousand, respectively, were fully funded by company and participant contributions.

There is no estimated transition obligation for the post-retirement benefit plan that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year.

Weighted average assumptions at December 31:

	December 31,	
	2021	2020
Discount rate	2.83 %	2.52 %
Initial weighted health care cost trend rate	5.00 %	5.00 %
Ultimate health care cost trend rate	5.00	5.00
Year that the rate is assumed to stabilize and remain unchanged	2022	2021

Post-retirement health benefit expense included the following components:

(Dollar amounts in thousands)	Years Ended December 31, 2021	2020	2019
Service cost	$ 43	$ 38	$ 34
Interest cost	103	125	146
Amortization of net actuarial loss (gain)	—	—	(16)
Net periodic benefit cost	146	163	164
Net loss (gain) during the period	(53)	238	626
Amortization of prior service cost	—	—	16
Total recognized in other comprehensive income (loss)	(53)	238	642
Total recognized net periodic benefit cost and other comprehensive income	$ 93	$ 401	$ 806

Contributions — The Corporation expects to contribute $248 thousand to its other post-retirement benefit plan in 2022.

Estimated Future Payments — The following benefit payments, which reflect expected future service, are expected:

(Dollar amounts in thousands)	
2022	$ 248
2023	253
2024	258
2025	253
2026	250
2027-2031	1,242

17. STOCK BASED COMPENSATION:

On February 5, 2011, the Corporation's Board of Directors adopted and approved the First Financial Corporation 2011 Omnibus Equity Incentive Plan (the "2011 Stock Incentive Plan") effective upon the approval of the Plan by the Corporation's shareholders, which occurred on April 20, 2011 at the Corporation’s annual meeting of shareholders. The 2011 Stock Incentive Plan provides for the grant of non qualified stock options, incentive stock options, stock appreciation rights, restricted stock, restricted stock units and incentive awards. An aggregate of 700,000 shares of common stock were reserved for issuance under the 2011 Stock Incentive Plan. A total of 205,760 shares of restricted common stock of the Corporation were granted under the 2011 Stock Incentive Plan. On April 21, 2021 at the Corporation's annual meeting of shareholders, the shareholders approved the First Financial Corporation Amended and Restated 2011 Omnibus Equity Incentive Plan ("2011 Amended Plan"). An aggregate of 400,000 shares of common stock are reserved for issuance under the 2011 Amended Plan. Shares issuable under the 2011 Amended Plan may be authorized and unissued shares of common stock or treasury shares.

During the first quarter of 2021 and 2020, the Compensation Committee of the Board of Directors of the Company granted restricted stock awards to certain executive officers pursuant to the Corporation's annual performance-based stock incentive bonus plan. Compensation expense is recognized over the vesting period of the awards based on the fair value of the stock at the grant date. The value of the awards was determined by dividing the award amount by the median price of a share of Company common stock on the grant dates. The restricted stock awards vest as follows — 33% on the first anniversary, 33% on the second anniversary and the remaining 34% on the third anniversary of the earned date. The Corporation has the right to retain shares to satisfy any withholding tax obligation. A total of 21,159 shares of restricted common stock of the Corporation were granted under the 2011 Amended Plan. A total of 378,841 remain to be granted under this plan.

Restricted Stock

Restricted stock awards require certain service-based or performance requirements and have a vesting period of 3 years. Compensation expense is recognized over the vesting period of the award based on the fair value of the stock at the date of issue. Compensation related to the plan was $807 thousand, $820 thousand, and $799 thousand in 2021, 2020 and 2019, respectively.

(shares in thousands)	Number Outstanding	2021 Weighted Average Grant Date Fair Value	Number Outstanding	2020 Weighted Average Grant Date Fair Value
Nonvested balance at January 1,	19,724	42.51	18,931	43.44
Granted during the year	20,016	41.81	19,688	42.50
Vested during the year	(19,105)	42.27	(18,895)	43.43
Forfeited during the year	(1,089)	42.51	—	—
Nonvested balance at December 31,	19,546	42.03	19,724	42.51

As of December 31, 2021 and 2020, there was $821 thousand and $838 thousand, respectively of total unrecognized compensation cost related to non-vested shares granted under the Plan. The cost is expected to be recognized over a weighted-average period of 1.5 years. The total fair value of the shares vested during the years ended December 31, 2021 and 2020 was $865 thousand and $734 thousand, respectively.

18. OTHER COMPREHENSIVE INCOME (LOSS):

The following table summarizes the changes, net of tax within each classification of accumulated other comprehensive income for the years ended December 31, 2021 and 2020.

	2021		
(Dollar amounts in thousands)	Unrealized gains and Losses on available-for-sale Securities	Retirement plans	Total
Beginning balance, January 1	$ 34,162	$ (24,398)	$ 9,764
Change in other comprehensive income before reclassification	(18,403)	4,744	(13,659)
Amounts reclassified from accumulated other comprehensive income	(85)	1,554	1,469
Net current period other comprehensive income (loss)	(18,488)	6,298	(12,190)
Ending balance, December 31	$ 15,674	$ (18,100)	$ (2,426)

	2020		
(Dollar amounts in thousands)	Unrealized gains and Losses on available-for-sale Securities	Retirement plans	Total
Beginning balance, January 1	$ 14,893	$ (22,394)	$ (7,501)
Change in other comprehensive income before reclassification	19,444	(3,479)	15,965
Amounts reclassified from accumulated other comprehensive income	(175)	1,475	1,300
Net current period other comprehensive income (loss)	19,269	(2,004)	17,265
Ending balance, December 31	$ 34,162	$ (24,398)	$ 9,764

(Dollar amounts in thousands)	Balance at 1/1/2021	Current Period Change	Balance at 12/31/2021
Unrealized gains (losses) on securities available-for-sale without other than temporary impairment	$ 31,810	$ (18,655)	$ 13,155
Unrealized gains (losses) on securities available-for-sale with other than temporary impairment	2,352	167	2,519
Total unrealized gain (loss) on securities available-for-sale	$ 34,162	$ (18,488)	$ 15,674
Unrealized loss on retirement plans	(24,398)	6,298	(18,100)
TOTAL	$ 9,764	$ (12,190)	$ (2,426)

(Dollar amounts in thousands)	Balance at 1/1/2020	Current Period Change	Balance at 12/31/2020
Unrealized gains (losses) on securities available-for-sale without other than temporary impairment	$ 12,178	$ 19,632	$ 31,810
Unrealized gains (losses) on securities available-for-sale with other than temporary impairment	2,715	(363)	2,352
Total unrealized gain (loss) on securities available-for-sale	$ 14,893	$ 19,269	$ 34,162
Unrealized loss on retirement plans	(22,394)	(2,004)	(24,398)
TOTAL	$ (7,501)	$ 17,265	$ 9,764

Details about accumulated other comprehensive income components	Balance at December 31, 2021 Amount reclassified from accumulated other comprehensive income	Affected line item in the statement where net income is presented
	(in thousands)	
Unrealized gains and losses	$ 114	Net securities gains (losses)
on available-for-sale	(29)	Income tax expense
securities	$ 85	Net of tax
Amortization of	$ (2,072)	(a)
retirement plan items	518	Income tax expense
	$ (1,554)	Net of tax
Total reclassifications for the period	$ (1,469)	Net of tax

(a) Included in the computation of net periodic benefit cost which is included in salaries and benefits. (see Footnote 16 for additional details).

Details about accumulated other comprehensive income components	Balance at December 31, 2020 Amount reclassified from accumulated other comprehensive income	Affected line item in the statement where net income is presented
	(in thousands)	
Unrealized gains and losses	$ 233	Net securities gains (losses)
on available-for-sale	(58)	Income tax expense
securities	$ 175	Net of tax
Amortization of	$ (1,967)	(a)
retirement plan items	492	Income tax expense
	$ (1,475)	Net of tax
Total reclassifications for the period	$ (1,300)	Net of tax

(a) Included in the computation of net periodic benefit cost which is included in salaries and benefits. (see Footnote 16 for additional details).

Details about accumulated other comprehensive income components	Balance at December 31, 2019 Amount reclassified from accumulated other comprehensive income		Affected line item in the statement where net income is presented
	(in thousands)		
Unrealized gains and losses	$	44	Net securities gains (losses)
on available-for-sale		(11)	Income tax expense
securities	$	33	Net of tax
Amortization of	$	(1,558)	(a)
retirement plan items		390	Income tax expense
	$	(1,168)	Net of tax
Total reclassifications for the period	$	(1,135)	Net of tax

(a) Included in the computation of net periodic benefit cost which is included in salaries and benefits. (see Footnote 16 for additional details).

19. LEASES:

The Corporation leases certain branches under operating leases. At December 31, 2021, the Corporation had lease liabilities totaling $6,218,000 and right-of-use assets totaling $6,197,000 related to these leases. Lease liabilities and right-of-use assets are reflected in other liabilities and other assets, respectively. For the year ended December 31, 2021, the weighted average remaining lease term for operating leases was 10.1 years and the weighted average discount rate used in the measurement of operating lease liabilities was 2.26%.

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

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

Lease costs were as follows:

(Dollar amounts in thousands)		Year Ended December 31, 2021
Operating lease cost	$	1,235
Short-term lease cost		196
Variable lease cost		10
Total lease cost	$	1,441
Other information:		
Cash paid for amounts included in the measurement of operating lease liabilities		1,200
Right-of-use assets obtained in exchange for new operating lease liabilities		9,293

Future minimum payments for operating leases with initial or remaining terms of one year or more as of December 31, 2021 were as follows:

(Dollar amounts in thousands)	December 31, 2021
Twelve Months Ended December 31,	
2022	$ 916
2023	858
2024	793
2025	751
2026	671
Thereafter	3,021
Total future minimum lease payments	7,010
Amounts representing interest	(792)
Present value of net future minimum lease payments	$ 6,218

20. REGULATORY MATTERS:

The Corporation and its bank affiliates are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory—and possibly additional discretionary—actions by regulators that, if undertaken, could have a direct material effect on the Corporation's financial statements.

Further, the Corporation's primary source of funds to pay dividends to shareholders is dividends from its subsidiary banks and compliance with these capital requirements can affect the ability of the Corporation and its banking affiliates to pay dividends. At December 31, 2021, approximately $8.4 million of undistributed earnings of the subsidiary banks, included in consolidated retained earnings, were available for distribution to the Corporation with regulatory approval. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Corporation and Banks must meet specific capital guidelines that involve quantitative measures of the Corporation's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Corporation's and Banks' capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Corporation and Banks to maintain minimum amounts and ratios of Total, Common equity tier I capital and Tier I Capital to risk-weighted assets, and of Tier I Capital to average assets. Under the Basel lll rules, the Corporation must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital.

Management believes, as of December 31, 2021 and 2020, that the Corporation meets all capital adequacy requirements to which it is subject.

As of December 31, 2021, the most recent notification from the respective regulatory agencies categorized the subsidiary banks as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the banks must maintain minimum total risk-based, Common equity tier I capital, Tier I risk-based and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the banks' category.

The following table presents the actual and required capital amounts and related ratios for the Corporation and First Financial Bank, N.A., at year-end 2021 and 2020.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
(Dollar amounts in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total risk-based capital						
Corporation – 2021	$ 533,599	15.63 %	$ 358,575	10.500 %	N/A	N/A
Corporation – 2020	$ 538,440	17.40 %	$ 324,849	10.500 %	N/A	N/A
First Financial Bank – 2021	487,416	14.78 %	346,248	10.500 %	329,760	10.00 %
First Financial Bank – 2020	507,869	17.03 %	313,075	10.500 %	298,166	10.00 %
Common equity tier I capital						
Corporation – 2021	$ 490,842	14.37 %	$ 239,050	7.000 %	N/A	N/A
Corporation – 2020	$ 499,664	16.15 %	$ 216,566	7.000 %	N/A	N/A
First Financial Bank – 2021	446,189	13.53 %	230,832	7.000 %	214,344	6.50 %
First Financial Bank – 2020	470,551	15.78 %	208,716	7.000 %	193,808	6.50 %
Tier I risk-based capital						
Corporation – 2021	$ 490,842	14.37 %	$ 290,275	8.500 %	N/A	N/A
Corporation – 2020	$ 499,664	16.15 %	$ 262,973	8.500 %	N/A	N/A
First Financial Bank – 2021	446,189	13.53 %	280,296	8.500 %	263,808	8.00 %
First Financial Bank – 2020	470,551	15.78 %	253,441	8.500 %	238,533	8.00 %
Tier I leverage capital						
Corporation – 2021	$ 490,842	9.83 %	$ 199,702	4.00 %	N/A	N/A
Corporation – 2020	$ 499,664	11.24 %	$ 177,781	4.00 %	N/A	N/A
First Financial Bank – 2021	446,189	9.18 %	194,405	4.00 %	243,006	5.00 %
First Financial Bank – 2020	470,551	10.90 %	172,728	4.00 %	215,910	5.00 %

In December 2018, the OCC, the Board of Governors of the Federal Reserve System, and the FDIC approved a final rule to address changes to credit loss accounting under GAAP, including banking organizations' implementation of CECL. The final rule provides banking organizations the option to phase in over a three-year period the day-one adverse effects on regulatory capital that may result from the adoption of the new accounting standard. In March 2020, the OCC, the Board of Governors of the Federal Reserve System, and the FDIC published an interim final rule to delay the estimated impact on regulatory capital stemming from the implementation of CECL. The interim final rule maintains the three-year transition option in the previous rule and provides banks the option to delay for two years an estimate of CECL's effect on regulatory capital, relative to the incurred loss methodology's effect on regulatory capital, followed by a three-year transition period (five-year transition option). The Corporation is not adopting the capital transition relief.

21. PARENT COMPANY CONDENSED FINANCIAL STATEMENTS:

The parent company's condensed balance sheets as of December 31, 2021 and 2020, and the related condensed statements of income and comprehensive income and cash flows for each of the three years in the period ended December 31, 2021, are as follows:

CONDENSED BALANCE SHEETS

	December 31,	
(Dollar amounts in thousands)	2021	2020
ASSETS		
Cash deposits in affiliated banks	$ 13,844	$ 2,480
Investments in subsidiaries	571,986	597,888
Land and headquarters building, net	4,423	4,614
Other	7,518	6,000
Total Assets	$ 597,771	$ 610,982
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Dividends payable	7,952	7,182
Other liabilities	7,243	6,808
TOTAL LIABILITIES	15,195	13,990
Shareholders' Equity	582,576	596,992
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 597,771	$ 610,982

CONDENSED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	Years Ended December 31,		
(Dollar amounts in thousands)	2021	2020	2019
Dividends from subsidiaries	$ 99,231	$ 31,069	$ 81,281
Other income	746	1,054	720
Interest on borrowings	—	(374)	(142)
Other operating expenses	(2,611)	(3,430)	(4,327)
Income before income taxes and equity in undistributed earnings of subsidiaries	97,366	28,319	77,532
Income tax benefit	681	801	908
Income before equity in undistributed earnings of subsidiaries	98,047	29,120	78,440
Equity in undistributed earnings of subsidiaries	(45,060)	24,724	(29,568)
Net income	$ 52,987	$ 53,844	$ 48,872
Comprehensive income	$ 40,797	$ 71,109	$ 64,825

CONDENSED STATEMENTS OF CASH FLOWS

(Dollar amounts in thousands)	Years Ended December 31, 2021	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Income	$ 52,987	$ 53,844	$ 48,872
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	191	328	193
Equity in undistributed earnings	45,060	(24,724)	(29,568)
Contribution of shares to ESOP	1,402	1,471	1,251
Restricted stock compensation	807	820	801
Increase (decrease) in other liabilities	435	6,127	(2,150)
(Increase) decrease in other assets	(1,518)	(5,977)	1,187
NET CASH FROM OPERATING ACTIVITIES	99,364	31,889	20,586
CASH FLOWS FROM INVESTING ACTIVITIES:			
Cash received (disbursed) from acquisitions	(31,348)	—	(6,571)
NET CASH FROM INVESTING ACTIVITIES	(31,348)	—	(6,571)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Principal payments on borrowings	—	(10,310)	—
Purchase of treasury stock	(42,471)	(9,220)	(315)
Dividends paid	(14,181)	(14,273)	(12,648)
NET CASH FROM FINANCING ACTIVITES	(56,652)	(33,803)	(12,963)
NET (DECREASE) INCREASE IN CASH	11,364	(1,914)	1,052
CASH, BEGINNING OF YEAR	2,480	4,394	3,342
CASH, END OF YEAR	$ 13,844	$ 2,480	$ 4,394
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	$ —	$ 375	$ —
Income taxes	$ 15,025	$ 7,549	$ 9,595

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, we carried out an evaluation (the “Evaluation”), under the supervision and with the participation of our Chief Executive Officer (“CEO”), who serves as our principal executive officer, and Chief Financial Officer (“CFO”), who serves as our principal financial officer, of the effectiveness of our disclosure controls and procedures (“Disclosure Controls”). Based on the Evaluation, our CEO and CFO concluded that our Disclosure Controls are effective and designed to ensure that the information required to be included in our periodic SEC reports is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms.

Changes in Internal Controls Over Financial Reporting

There was no change in the Corporation’s internal control over financial reporting that occurred during the Corporation’s fourth fiscal quarter of 2021 that has materially affected, or is reasonably likely to materially affect, the Corporation’s internal control over financial reporting.

Management’s Report on Internal Control Over Financial Reporting and Attestation Report of the Registered Public Accounting Firm

“Management’s Report on Internal Control over Financial Reporting” and “Report of Independent Registered Public Accounting Firm” are included in Item 8 hereof and incorporated by reference.

ITEM 9B. OTHER INFORMATION

Not applicable.

ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

In accordance with the provisions of General Instruction G to Form 10-K, the information required for disclosure under Item 10 is not set forth herein because the Corporation intends to file with the Securities and Exchange Commission a definitive Proxy Statement pursuant to Regulation 14A not later than 120 days following the end of its 2021 fiscal year, which Proxy Statement will contain such information. The information required by Item 10 is incorporated herein by reference to such Proxy Statement.

ITEM 11. EXECUTIVE COMPENSATION

In accordance with the provisions of General Instruction G to Form 10-K, the information required for disclosure under Item 11 is not set forth herein because the Corporation intends to file with the Securities and Exchange Commission a definitive Proxy Statement pursuant to Regulation 14A not later than 120 days following the end of its 2021 fiscal year, which Proxy Statement will contain such information. The information required by Item 11 is incorporated herein by reference to such Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS

In accordance with the provisions of General Instruction G to Form 10-K, certain information required for disclosure under Item 12 (relating to Item 403 of Regulation S-K) is not set forth herein because the Corporation intends to file with the Securities and Exchange Commission a definitive Proxy Statement pursuant to Regulation 14A not later than 120 days following the end of its 2021 fiscal year, which Proxy Statement will contain such information. Such information required by Item 12 is incorporated herein by reference to such Proxy Statement.

Following is the information required by Item 12 relating to Item 201 (d) of Regulation S-K.

Equity Compensation Plan Information

The following table provides certain information as of December 31, 2021 with respect to the Corporation's equity compensation plans under which equity securities of the Company are authorized for issuance.

Plan Category	Number of Securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining (1)
Equity compensation plans approved by security holders (2)	—	—	378,841
Equity compensation plans not approved by security holders (3)	—	—	—
Total	—	—	378,841

(1) Available for future issuance under equity compensation plans (excluding securities reflected in the first column).
(2) Includes the First Financial Corporation Amended and Restated 2011 Omnibus Equity Incentive Plan.
(3) The Corporation has no equity compensation plan that has not been authorized by its stockholders.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

In accordance with the provisions of General Instruction G to Form 10-K, the information required for disclosure under Item 13 is not set forth herein because the Corporation intends to file with the Securities and Exchange Commission a definitive Proxy Statement pursuant to Regulation 14A not later than 120 days following the end of its 2021 fiscal year, which Proxy Statement will contain such information. The information required by Item 13 is incorporated herein by reference to such Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

In accordance with the provisions of General Instruction G to Form 10-K, the information required for disclosure under Item 14 is not set forth herein because the Corporation intends to file with the Securities and Exchange Commission a definitive Proxy Statement pursuant to Regulation 14A not later than 120 days following the end of its 2021 fiscal year, which Proxy Statement will contain such information. The information required by Item 14 is incorporated herein by reference to such Proxy Statement.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) (1) The following consolidated financial statements of the Registrant and its subsidiaries are filed as part of this document under “Item 8. Financial Statements and Supplementary Data.”
Consolidated Balance Sheets—December 31, 2021 and 2020
Consolidated Statements of Income and Comprehensive Income—Years ended December 31, 2021, 2020, and 2019
Consolidated Statements of Changes in Shareholders’ Equity—Years ended December 31, 2021, 2020, and 2019
Consolidated Statements of Cash Flows—Years ended December 31, 2021, 2020, and 2019
Notes to Consolidated Financial Statements
(a) (2) Schedules to the Consolidated Financial Statements required by Article 9 of Regulation S-X are not required, inapplicable, or the required information has been disclosed elsewhere.
(a) (3) Listing of Exhibits:

Exhibit Number	Description
2.1	Agreement and Plan of Merger among First Financial Corporation, HB Subsidiary, Inc. and Hancock Bancorp, Inc. dated as of August 10, 2021, incorporated by reference to Exhibit 2.1 of the Corporation's Form 8-K filed August 10, 2021.
3.1	Amended and Restated Articles of Incorporation of First Financial Corporation, incorporated by reference to Exhibit 3(i) of the Corporation’s Form 10-Q filed for the quarter ended September 30, 2002.
3.2	Amended and Restated Code of By-Laws of First Financial Corporation, incorporated by reference to Exhibit 3.2 of the Corporation’s Form 8-K filed February 22, 2021.
3.3	Articles of Amendment to the Amended and Restated Articles of Incorporation of First Financial Corporation, incorporated by reference to Exhibit 3.1 of the Corporation's Form 8-K filed April 27, 2021.
10.1*	Employment Agreement for Norman L. Lowery, effective July 1, 2021, incorporated by reference to Exhibit 10.01 of the Corporation’s Form 8-K filed July 1, 2021.
10.2*	2001 Long-Term Incentive Plan of First Financial Corporation, incorporated by reference to Exhibit 10.3 of the Corporation’s Form 10-Q filed for the quarter ended September 30, 2002.
10.5*	2005 Long-Term Incentive Plan of First Financial Corporation, incorporated by reference to Exhibit 10.7 of the Corporation’s Form 8-K filed September 4, 2007.
10.6*	2005 Executives Deferred Compensation Plan, incorporated by reference to Exhibit 10.5 of the Corporation’s Form 8-K filed September 4, 2007.
10.7*	2005 Executives Supplemental Retirement Plan, incorporated by reference to Exhibit 10.6 of the Corporation’s Form 8-K filed September 4, 2007.
10.9*	First Financial Corporation 2010 Long-Term Incentive Compensation Plan, incorporated by reference to Exhibit 10.9 to the Corporation’s Form 10-K filed March 15, 2011.
10.10*	First Financial Corporation 2011 Short Term Incentive Compensation Plan, incorporated by reference to Exhibit 10.10 to the Corporation’s Form 10-K filed March 15, 2011.
10.11*	First Financial Corporation Amended and Restated 2011 Omnibus Equity Incentive Plan, incorporated by reference to exhibit 10.1 to the Corporation’s Form 8-K for the annual meeting filed April 27, 2021.
10.12*	Form of Restricted Stock Award Agreement, incorporated by reference to exhibit 10.12 to the Corporations 10-Q for the quarter ended March 31, 2012 filed May 10, 2012.

continued

Exhibit Number	Description
10.13*	Employment Agreement for Norman D. Lowery, effective July 1, 2021, incorporated by reference to Exhibit 10.1 of the Corporation's Form 8-K filed July 1, 2021.
10.14*	Employment Agreement for Rodger A. McHargue, effective July 1, 2021, incorporated by reference to Exhibit 10.2 of the Corporation's Form 8-K filed July 1, 2021.
10.15*	Employment Agreement for Steven H. Holliday, effective July 1, 2021, incorporated by reference to Exhibit 10.3 of the Corporation's Form 8-K filed July 1, 2021.
10.16*	Separation and Release Agreement, dated December 9, 2021, among First Financial Corporation, First Financial Bank, N.A. and Karen L. Stinson-Milienu.
21	Subsidiaries
31.1	Certification pursuant to Rule 13a-14(a) for Annual Report of Form 10-K by Principal Executive Officer
31.2	Certification pursuant to Rule 13a-14(a) for Annual Report of Form 10-K by Principal Financial Officer
32.1	Certification pursuant to 18 U.S.C. Section 1350 of Principal Executive Officer
32.2	Certification pursuant to 18 U.S.C. Section 1350 of Principal Financial Officer
101.	The following material from First Financial Corporation's Form 10-K Report for the annual period ended December 31, 2021, formatted in XBRL pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income and Comprehensive Income, (iii) the Consolidated Statements of Cash Flows, (iv) the Consolidated Statements of Changes in Shareholders' Equity, and (v) the Notes to Consolidated Financial Statements**

*Indicates management contract or compensatory plan or arrangement required to be filed as an exhibit to this report.

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

(b) Exhibits-Filed Exhibits to (a) (3) listed above are attached to this report.

(c) Financial Statements Schedules-No schedules are required to be submitted. See response to ITEM 15(a) (2).

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

First Financial Corporation

Date: March 9, 2022

/s/ Rodger A. McHargue

Rodger A. McHargue, Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

NAME	DATE
/s/ Rodger A. McHargue Rodger A. McHargue, Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	March 9, 2022
/s/ Mark Blade Mark Blade, Director	March 9, 2022
/s/ W. Curtis Brighton W. Curtis Brighton, Director	March 9, 2022
/s/ Michael A. Carty Michael A. Carty, Director	March 9, 2022
/s/ Thomas T. Dinkel Thomas T. Dinkel, Director	March 9, 2022
/s/ Gregory L. Gibson Gregory L. Gibson, Director	March 9, 2022
/s/ Susan M. Jensen Susan M. Jensen, Director	March 9, 2022
/s/ William R. Krieble William R. Krieble, Director	March 9, 2022
/s/ Norman D. Lowery Norman D. Lowery, Chief Operations Officer & Director	March 9, 2022
/s/ Norman L. Lowery Norman L. Lowery, Chairman, President, CEO & Director (Principal Executive Officer)	March 9, 2022
/s/ Tina J. Maher Tina J. Maher, Director	March 9, 2022
/s/ Thomas C. Martin Thomas C. Martin, Director	March 9, 2022
/s/ James O. McDonald James O. McDonald, Director	March 9, 2022
/s/ Paul J. Pierson II Paul J. Pierson II, Director	March 9, 2022

/s/ Ronald K. Rich	March 9, 2022
Ronald K. Rich, Director	
/s/ Richard J. Shagley	March 9, 2022
Richard J. Shagley, Director	
/s/ William J. Voges	March 9, 2022
William J. Voges, Director	

EXHIBIT INDEX

Exhibit Number	Description
21	Subsidiaries
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31.2	Certification Pursuant to Rule 13a-14(a) for Annual Report of Form 10-K by Principal Financial Officer
32.1	Certification Pursuant to Rule 18 U.S.C. Section 1350 of Principal Executive Officer
32.2	Certification Pursuant to Rule 18 U.S.C. Section 1350 of Principal Financial Officer
101.	The following material from First Financial Corporation's Form 10-K Report for the annual period ended December 31, 2021, formatted in XBRL pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income and Comprehensive Income, (iii) the Consolidated Statements of Cash Flows, (iv) the Consolidated Statements of Changes in Shareholders' Equity, and (v) the Notes to Consolidated Financial Statements.*

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

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DUNDER MIFFLIN
& TEA

One of America's Best Banks

Forbes

5-Star Rating

BauerFinancial

Best Bank

Tribune-Star Readers' Choice

Best Bank

Main Street Awards

First Financial Corporation